Downer EDI Limited
ABN: 97 003 872 848

Appendix 4E - Preliminary Final Report for the year ended 30 June 2010

Results for announcement to the market
for the year ended 30 June 2010

Appendix 4E

	2010 $'000	2009 $'000	% change
Revenue from ordinary activities	**5,814,717**	5,861,410	(0.8%)
Total revenue including joint ventures	**6,055,935**	5,941,391	1.9%
Earnings before interest and tax (after significant items)	**53,362**	304,799	(82.5%)
Profit from ordinary activities after tax attributable to members of the parent entity (after significant items)	**2,957**	189,376	(98.4%)
Net profit for the year attributable to members of the parent entity	**2,957**	189,376	(98.4%)

	2010 cents	2009 cents	% change
Net tangible asset backing per ordinary share	**194.1**	217.6	(10.8%)

	2010	2009
Dividend		
Unfranked final dividend per share (cents)	**16.0**	16.0
Unfranked interim dividend paid 09 April 2010 per share (cents)	**13.1**	13.0
Conduit foreign income (CFI)	**100%**	100%
Final dividend record date	**1/09/2010**	1/09/2009
Final dividend payment date	**1/10/2010**	2/10/2009
ROADS		
Redeemable Optionally Adjustable Distributing Securities (ROADS)		
Dividend per ROADS (in Australian cents)	**5.5**	5.7
New Zealand imputation credit percentage per ROADS	**100%**	100%

ROADS payment date	**Quarter 4**	**Quarter 3**	**Quarter 2**	**Quarter 1**
Instalment date FY2010	**15/06/2010**	**15/03/2010**	**15/12/2009**	**15/09/2009**
Instalment date FY2009	15/06/2009	16/03/2009	15/12/2008	15/09/2008

Downer EDI's Dividend Reinvestment Plan (DRP) applies to the 2010 final dividend. The share price for the DRP will be calculated as the arithmetic average of the daily volume weighted average price during the 10 trading days commencing on the second trading day after the record date, less a discount of 2.5%. Shareholders wishing to participate or amend their participation in the DRP will need to provide their election notices to the company's share registry by 1 September 2010.

For commentary on the results for the year and review of operations, refer to the separate media release attached.

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for the year ended 30 June 2010

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Appendix 4E - Results for announcement to the market

Consolidated income statement
for the year ended 30 June 2010

	Note	Consolidated 2010 $'000	2009 $'000
Revenue from ordinary activities	3(a)	**5,814,717**	5,861,410
Other income	3(a)	**30,050**	6,403
Total revenue		**5,844,767**	5,867,813
Employee benefits expense	3(b)	**(1,975,592)**	(2,068,044)
Raw materials and consumables used		**(1,468,167)**	(1,454,525)
Subcontractor costs		**(1,029,545)**	(985,279)
Plant and equipment costs		**(537,868)**	(560,204)
Communication expenses		**(60,401)**	(54,698)
Occupancy costs		**(99,182)**	(96,838)
Professional fees		**(42,868)**	(43,701)
Travel and accommodation expenses		**(59,266)**	(68,498)
Other expenses from ordinary activities		**(95,406)**	(80,369)
Depreciation and amortisation costs	3(b)	**(160,159)**	(141,768)
Finance costs	3(b)	**(72,268)**	(65,018)
Share of net profit of joint ventures entities and associates	15(b)	**18,022**	10,154
Individually significant items	4	**(260,000)**	-
Profit before income tax		**2,067**	259,025
Income tax benefit/(expense)	5	**985**	(69,649)
Profit after income tax		**3,052**	189,376
Profit for the year that is attributable to:			
Non-controlling interest		**95**	-
Members of the parent entity		**2,957**	189,376
Total profit for the year		**3,052**	189,376
Earnings per share (cents)			
• Basic earnings per share (excluding ROADS)	7	**0.9**	57.9
• Basic (loss)/earnings per share	7	**(2.4)**	54.4
• Diluted earnings per share	7	**(2.4)**	52.7

The consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income
for the year ended 30 June 2010

	Note	Consolidated 2010 $'000	2009 $'000
Profit after income tax		**3,052**	189,376
Other comprehensive income			
• Exchange differences arising on translation of foreign operations		**(3,816)**	16,333
• Net gain/(loss) on available-for-sale investments taken to equity		**333**	(3,053)
• Net (loss)/gain on foreign currency forward contracts taken to equity		**(38,883)**	91,732
• Net gain/(loss) on cross currency interest rate swaps taken to equity		**2,471**	(6,460)
• Loss on share of reserves from associates		**-**	(45,532)
• Amortisation on share of reserves from associates	24	**2,637**	-
• Income tax relating to components of other comprehensive income		**10,939**	(24,801)
Other comprehensive (expense)/income included in equity		**(26,319)**	28,219
Total comprehensive income for the year		**(23,267)**	217,595
Total comprehensive income for the year that is attributable to:			
Non-controlling interest		**95**	-
Members of the parent entity		**(23,362)**	217,595
Total comprehensive income for the year		**(23,267)**	217,595

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position
as at 30 June 2010

	Note	Consolidated 2010 $'000	2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**385,126**	299,463
Inventories	10	**193,138**	198,396
Trade and other receivables	11	**1,183,878**	1,165,458
Other financial assets	12	**12,708**	12,154
Current tax assets	13	**13,765**	13,920
Other assets	14	**28,787**	32,310
Non-current assets as held for sale	26	**-**	65,587
Total current assets		**1,817,402**	1,787,288
Non-current assets			
Trade and other receivables	11	**-**	14,949
Equity-accounted investments	15(b)	**22,410**	8,437
Property, plant and equipment	16	**862,076**	846,304
Intangible assets	17	**589,414**	609,970
Other financial assets	12	**35,954**	22,446
Deferred tax assets	13(a)	**123,280**	87,450
Other assets	14	**5,464**	6,245
Total non-current assets		**1,638,598**	1,595,801
Total assets		**3,456,000**	3,383,089
LIABILITIES			
Current liabilities			
Trade and other payables	18	**987,266**	946,024
Borrowings	19	**272,167**	215,839
Other financial liabilities	20	**41,513**	47,722
Provisions	21	**199,414**	185,570
Current tax liabilities	22	**5,012**	10,205
Total current liabilities		**1,505,372**	1,405,360
Non-current liabilities			
Trade and other payables	18	**713**	2,192
Borrowings	19	**617,012**	578,658
Other financial liabilities	20	**39,597**	21,136
Provisions	21	**27,162**	27,184
Deferred tax liabilities	22(a)	**23,293**	18,171
Total non-current liabilities		**707,777**	647,341
Total liabilities		**2,213,149**	2,052,701
Net assets		**1,242,851**	1,330,388
EQUITY			
Issued capital	23	**1,118,675**	1,078,791
Reserves	24	**(107,893)**	(85,124)
Retained earnings		**231,974**	336,721
Parent interests		**1,242,756**	1,330,388
Non-controlling interest		**95**	-
Total equity		**1,242,851**	1,330,388

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity
for the year ended 30 June 2010

Consolidated **2010**	Issued capital $'000	Available-for-sale investment reserve $'000	Hedge reserve (Note 24) $'000	Foreign currency translation reserve $'000	Employee benefits reserve $'000	Retained earnings $'000	**Attributable to owners of the parent $'000**	Non-controlling interest $'000	**Total $'000**
Balance at 1 July 2009	**1,078,791**	**(3,053)**	**(61,902)**	**(36,129)**	**15,960**	**336,721**	**1,330,388**	**-**	**1,330,388**
Profit after income tax	**-**	**-**	**-**	**-**	**-**	**2,957**	**2,957**	**95**	**3,052**
Exchange differences arising on translation of foreign operations	**-**	**-**	**-**	**(3,816)**	**-**	**-**	**(3,816)**	**-**	**(3,816)**
Gain on available-for-sale investments	**-**	**333**	**-**	**-**	**-**	**-**	**333**	**-**	**333**
Net loss on foreign currency forward contracts	**-**	**-**	**(38,883)**	**-**	**-**	**-**	**(38,883)**		**(38,883)**
Net gain on cross currency interest rate swaps	**-**	**-**	**2,471**	**-**	**-**	**-**	**2,471**	**-**	**2,471**
Amortisation of reserves from associates	**-**	**-**	**2,637**	**-**	**-**	**-**	**2,637**	**-**	**2,637**
Income tax relating to components of other comprehensive income	**-**	**(96)**	**11,035**	**-**	**-**	**-**	**10,939**	**-**	**10,939**
Total comprehensive income for the year	**-**	**237**	**(22,740)**	**(3,816)**	**-**	**2,957**	**(23,362)**	**95**	**(23,267)**
Contributions of equity (net of transaction costs) (i)	**41,701**	**-**	**-**	**-**	**-**	**-**	**41,701**	**-**	**41,701**
Unvested executive incentive shares transactions	**(4,476)**	**-**	**-**	**-**	**-**	**-**	**(4,476)**	**-**	**(4,476)**
Vested executive incentive shares transactions	**2,659**	**-**	**-**	**-**	**(2,659)**	**-**	**-**	**-**	**-**
Share-based transactions during the year	**-**	**-**	**-**	**-**	**6,261**	**-**	**6,261**	**-**	**6,261**
Income tax relating to share-based transactions during the year	**-**	**-**	**-**	**-**	**(52)**	**-**	**(52)**	**-**	**(52)**
Payment of dividends (ii)	**-**	**-**	**-**	**-**	**-**	**(107,704)**	**(107,704)**	**-**	**(107,704)**
Balance at 30 June 2010	**1,118,675**	**(2,816)**	**(84,642)**	**(39,945)**	**19,510**	**231,974**	**1,242,756**	**95**	**1,242,851**

(i) Contribution of equity relates to shares issued as a result of Dividend Re-investment plan.
(ii) Payment of dividends relates to 2010 interim, 2009 final dividend and ROADS dividends paid for the financial year.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity- *continued*
for the year ended 30 June 2010

Consolidated **2009**	Issued capital $'000	Available-for-sale investment reserve $'000	Hedge reserve (Note 24) $'000	Foreign currency translation reserve $'000	Employee benefits reserve $'000	Retained earnings $'000	**Attributable to owners of the parent $'000**	Non-controlling interest $'000	**Total $'000**
Balance at 1 July 2008	1,080,559	-	(76,841)	(52,462)	3,314	241,794	**1,196,364**	-	**1,196,364**
Profit after income tax	-	-	-	-	-	189,376	**189,376**	-	**189,376**
Exchange differences arising on translation of foreign operations	-	-	-	16,333	-	-	**16,333**	-	**16,333**
Loss on available-for-sale investments	-	(3,053)	-	-	-	-	**(3,053)**	-	**(3,053)**
Net gain on foreign currency forward contracts	-	-	91,732	-	-	-	**91,732**	-	**91,732**
Net loss on cross currency interest rate swaps	-	-	(6,460)	-	-	-	**(6,460)**	-	**(6,460)**
Loss on share of reserves from associates	-	-	(45,532)	-	-	-	**(45,532)**	-	**(45,532)**
Income tax relating to components of other comprehensive income	-	-	(24,801)	-	-	-	**(24,801)**	-	**(24,801)**
Total comprehensive income for the year	-	(3,053)	14,939	16,333	-	189,376	**217,595**	-	**217,595**
Contributions of equity (net of transaction costs) (i)	25,512	-	-	-	-	-	**25,512**	-	**25,512**
Unvested executive incentive shares transactions	(27,280)	-	-	-	-	-	**(27,280)**	-	**(27,280)**
Share-based transactions during the year	-	-	-	-	12,646	-	**12,646**	-	**12,646**
Payment of dividends (ii)	-	-	-	-	-	(94,449)	**(94,449)**	-	**(94,449)**
Balance at 30 June 2009	1,078,791	(3,053)	(61,902)	(36,129)	15,960	336,721	**1,330,388**	-	**1,330,388**

(i) Contribution of equity relates to shares issued as a result of Dividend Re-investment plan and the Employee Share Plan.
(ii) Payment of dividends relates to 2009 interim, 2008 final dividend and ROADS dividends paid for the financial year.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows
for the year ended 30 June 2010

	Note	Consolidated 2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers		**6,206,952**	6,448,412
Distributions from equity accounted investments	15(b)	**12,708**	9,895
Dividends received from external entities		**359**	1,390
Payments to suppliers and employees		**(5,905,166)**	(6,103,693)
Settlement of operational foreign exchange contracts		**(34,882)**	38,827
Interest received		**18,327**	18,227
Interest and other costs of finance paid		**(69,274)**	(60,220)
Income tax paid		**(24,758)**	(16,374)
Net cash inflow from operating activities	27(c)	**204,266**	336,464
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**74,236**	20,939
Payment for property, plant and equipment		**(207,724)**	(289,219)
Payment for intangible assets		**(3,985)**	(2,526)
Payment for investments		**(29,323)**	(961)
Advances to joint ventures		**(666)**	(1,793)
Proceeds from sale of assets held for sale	26	**89,188**	4,120
Advances to other entities		**(33,786)**	-
Payment for businesses acquired	25(b)	**(32,336)**	(51,576)
Net cash (used) in investing activities		**(144,396)**	(321,016)
Cash flows from financing activities			
Proceeds from borrowings		**855,441**	1,260,517
Repayment of borrowings		**(764,183)**	(1,157,909)
Proceeds from issue of equity securities		**-**	2,495
Dividends paid		**(66,003)**	(72,080)
Net cash inflow from financing activities		**25,255**	33,023
Net increase in cash and cash equivalents		**85,125**	48,471
Cash and cash equivalents at the beginning of the year		**292,223**	239,833
Effect of exchange rate changes		**1,034**	3,919
Cash and cash equivalents at the end of the year	27(a)	**378,382**	292,223

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Preliminary Final Report
for the year ended 30 June 2010

Note 1. Summary of accounting policies

Statement of Compliance

The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited consolidated Annual Financial Report. The Annual Financial Report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The Annual Financial Report also complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

The consolidated Annual Financial Report is in the process of being audited and is expected to be made available on 27 September 2010. This report should be read in conjunction with any public announcements made by Downer EDI during the year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

Rounding of amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Preliminary Final Report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Basis of preparation

The Preliminary Final Report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The preparation of the Preliminary Final Report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the Preliminary Final Report are described below.

Application of critical judgement and key sources of estimation uncertainty

The following are critical judgements that management has made in the process of applying the Group's accounting policies and which have the most significant effect on the amounts recognised in the Preliminary Final Report:

Revenue recognition
Revenue and expense are recognised in net profit by reference to the stage of completion of each identifiable component for construction contracts.

Note 1. Summary of accounting policies - *continued*

Application of critical judgement and key sources of estimation uncertainty - *continued*

A fundamental condition for being able to estimate profit recognition based on percentage of completion is that project revenues and project costs can be reliably estimated. This reliability is based on such factors as compliance with the Group's system for project control and that project management has the necessary skills. Project control also includes a number of estimates and assessments that depend on the experience and knowledge of project management in respect of project control, industrial relations, risk management, training and the prior management of projects.

In determining revenues and expense for construction contracts management makes key assumptions regarding estimated revenues and expense over the life of the contracts. Where variations are recognised in revenue, assumptions are made regarding the probability that customers will approve variations and the amount of revenue arising from variations. In respect of costs, key assumptions regarding costs to complete contracts may include estimation of labour, technical costs, impact of delays and productivity.

Impairment of assets
The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis or whenever there is an indication of impairment. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The Group uses the higher of fair value less costs to sell and value in use to determine recoverable amount. An impairment loss of $42.0 million (2009: $nil) was recognised in the current year in respect of goodwill related to the Work UK business and CPG New Zealand consulting business following an assessment of the future performance of those businesses. Key assumptions requiring management's judgement includes projected cash flows, growth rate estimates, discount rates, gross margin, working capital and capital expenditure. These assumptions are further discussed in Note 17.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

Income taxes
The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Judgement is required in determining the worldwide provision for income taxes. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Assumptions about the generation of future taxable profits depends on management's estimate of future cash flows. Change in circumstances will alter expectations, which may impact the amount of deferred tax assets and liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised.

Significant accounting policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been consistently applied in preparing the Preliminary Final Report for the year ended 30 June 2010, as well as the comparative information presented in the Preliminary Final Report.

Note 1. Summary of accounting policies - *continued*

Principles of consolidation

The Preliminary Final Report is prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the Preliminary Final Report.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at fair value at the date of acquisition. Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

The Preliminary Final Report includes the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the Preliminary Final Report, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

Revenue Recognition

Amounts disclosed as revenue are net of trade allowances, duties and taxes paid. Revenue is recognised and measured at fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

Rendering of services
Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. This is normally determined as services performed up to and including the balance sheet date as a proportion of the total to be performed. Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred. Services rendered include international mine consulting and contracting services, maintenance and construction of roads, highways and rail infrastructure, infrastructure maintenance services, engineering and consultancy services and facilities management.

Services contracts are reported in trade receivables and trade payables, as gross amounts due from/to customers. If cumulative work done to date (contract costs plus contract net profit) of contracts in progress exceeds progress payments received, the difference is recognised as an asset and included in amounts due from customers for contract work. If the net amount after deduction of progress payments received is negative, the difference is recognised as a liability and included in amounts due to customers for contract work.

Mining services contracts
Revenue from a contract to provide mining services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined by reference to the services performed up to and including the balance sheet date as a proportion of the total service to be performed.

Note 1. Summary of accounting policies - *continued*

Revenue recognition - *continued*

Construction contracts

(i) Construction contracts
Construction contracts are contracts specifically negotiated for the construction of an asset or combination of assets.

Revenues and expenses from construction contracts are recognised in net profit by reference to the stage of completion of the contract as at the reporting date. The stage of completion is determined by reference to physical estimates, surveys of the work performed or costs incurred and is usually measured as the ratio of contract costs incurred for work performed to date against total contract costs. Any expected loss is recognised as an expense immediately.

Contract revenue is measured at the fair value of the consideration received or receivable. In the early stages of a contract, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable. That is, no margin is recognised until the outcome of the contract can be reliably estimated. Profit recognition for lump sum fixed price contracts does not commence until cost to complete can be reliably measured.

Contract price and cost estimates are reviewed periodically as the work progresses and reflect adjustments proportionate to the percentage-of-completion in the income statement in the period when those estimates are revised. Where considered material, provisions are made for all known or anticipated losses. Variations from estimated contract performance could result in a material adjustment to operating results for any financial period. Claims are included for extra work or changes in scope of work to the extent of costs incurred in contract revenues when collection is probable.

Where claims on customers result in dispute and the amount in dispute is significant, and it is expected that the matters in dispute will not be resolved within 12 months from the company’s semi annual reporting date, the provision will be based on the company’s assessment of the risk associated with construction contracts at the reporting date.

Construction contracts are reported in trade receivables and trade payables, as gross amounts due from/to customers. If cumulative work done to date (contract costs plus contract net profit) of contracts in progress exceeds progress payments received, the difference is recognised as an asset and included in amounts due from customers for contract work. If the net amount after deduction of progress payments received is negative, the difference is recognised as a liability and included in amounts due to customers for contract work.

Note 1. Summary of accounting policies - *continued*

Revenue recognition - *continued*

Construction contracts - continued

(ii) Construction contract - Public Private Partnership (PPP)
Revenue and expenses from the PPP construction contract are recognised in net profit by reference to the stage of completion of each separately identifiable component of the contract for the design and manufacture of rolling stock and construction of a maintenance facility, to the extent of costs incurred plus margin. Margin is recognised based on the relative risk assessment of each component and costs incurred to achieve operational milestones. Any expected loss is recognised as an expense immediately. The rolling stock manufacturing contract comprises detailed engineering design, prototype development and full scale manufacture. These identifiable separate components have been determined based on:

- each component being subject to separate customer acceptance procedures; and
- the costs and revenues of each component having been identified.

Based on the projected revenues and costs-to-complete the PPP construction contract determined during the year, a provision of $190.0 million was made for the expected loss on this contract including the reversal of $8.6 million of net profit recognised in the income statement in previous years (Note 4).

Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Other revenue

(i) Royalties
Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

(ii) Dividend and interest revenue
Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(iii) Fee based revenue
Fee based revenue generated by Corporate office is recognised on an accrual basis as derived.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

- where the amount of GST incurred is not recoverable from the taxation authorities, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to the taxation authorities, is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to the taxation authorities, is classified as operating cash flows.

Note 1. Summary of accounting policies - *continued*

Income tax

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the Preliminary Final Report and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except when the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year
Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or when it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or the excess.

Tax consolidation
Downer EDI Limited and its wholly-owned Australian controlled entities are part of a tax-consolidated group under Australian taxation law. Downer EDI Limited is the head entity in the tax-consolidated group. Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Downer EDI Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

Note 1. Summary of accounting policies - *continued*

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the parent entity Preliminary Final Report.

Investment in associates
Investments in entities over which the consolidated entity has the ability to exercise significant influence but not control are accounted for using equity accounting principles and are carried at cost plus post-acquisition changes in the consolidated entity's share of net assets of associates, less any impairment in value.

Losses of an associate in excess of the Group's interest in an associate are recognised only to the extent that the Group has incurred legal or constructive obligation or made payments on behalf of the associate. If the associate subsequently reports profits, the consolidated entity resumes recognising its share of those profits only after its share of the profits equal the share of losses not recognised.

Available-for-sale financial assets
Available-for-sale financial assets are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in the profit or loss for the year.

Loans and receivables
Trade receivables, loans and other receivables are recorded at amortised cost using the effective interest method less impairment.

Fair value through profit and loss investments
Fair value through profit and loss investments are valued at fair value at each reporting date based on the current bid price. Movements in fair value are taken to the income statement.

Non-current asset held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less cost to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition and the sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

Note 1. Summary of accounting policies - *continued*

Joint ventures

Jointly controlled assets and operations
Interests in jointly controlled assets and operations are reported in the Preliminary Final Report by including the consolidated entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

Jointly controlled entities
Interests in jointly controlled entities are accounted for under the equity method in the consolidated Preliminary Final Report.

Property, plant and equipment

Land is measured at cost. Buildings, plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write down the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The expected useful lives of property, plant and equipment are generally:

• Buildings	20-30 years
• Plant and equipment	3-25 years
• Equipment under finance lease	5-15 years

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at an amount equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Finance leases
Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Finance leased assets are depreciated on a straight line basis over the estimated useful life of each asset.

Operating leases
Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Note 1. Summary of accounting policies - *continued*

Intangible assets

Goodwill
Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Intellectual property
Patents, trademarks and licenses are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives having considered contractual terms, which is not greater than 40 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method.

Derivative financial instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The consolidated entity designates certain derivatives as either hedges of the fair value of recognised assets or liabilities, firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

Note 1. Summary of accounting policies - *continued*

Derivative financial instruments - *continued*

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss. Amounts deferred in equity are included in the profit or loss in the same periods the hedged item is recognised in the profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts. This only occurs when the host contracts are not measured at fair value.

Employee benefits

Liabilities are made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, redundancy and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities made in respect of employee benefits which are not expected to be settled within 12 months, are measured at the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date. Contributions to defined contribution superannuation plans are expensed when incurred.

Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

Decommissioning and restoration
Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs, based on estimated future costs. The provision is discounted using a current market-based pre-tax discount rate.

The provision is the best estimate of the present value of the expenditure required to settle rectification obligations at the reporting date, based on current legal requirements and technology. Future rectification costs are reviewed annually and any changes are reflected in the present value of the rectification provision at the end of the reporting period.

Note 1. Summary of accounting policies - *continued*

Provisions - *continued*

Warranty
Provision is made for the estimated liability on products under warranty at balance date. This provision is estimated having regard to service warranty experience. Other warranty costs are accrued for as and when the liability arises.

Onerous contract
A provision for an onerous contract is recognised when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under that contract, and only after impairment losses to assets dedicated to that contract have been recognised.

The provision recognised is based on the excess of the estimated cash flows to meet the unavoidable costs under the contract over the estimated cash flows to be received in relation to the contract, having regards to the risks of the activities relating to the contract. The net estimated cash flows are discounted using market yields at balance date of national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payment where the effect of discounting is material.

Foreign currency

Foreign currency transactions
All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at reporting date exchange rates are recognised in the income statement except when deferred in equity as qualifying cash flow hedges.

Foreign operations
On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve and recognised in the income statement on disposal of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date.

Financial instruments

Debt and equity instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Note 1. Summary of accounting policies - *continued*

Financial instruments - *continued*

Interest and dividends
Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments.

Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

Share-based transactions

Equity-settled share-based transactions are measured at fair value at the date of grant.

The Group makes share-based awards to certain employees. The fair value is determined at the date of grant taking into account any market related performance conditions. For equity-settled awards, the fair value is charged to the income statement and credited to equity.

The fair value at grant date is independently determined using an option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate of the term of the option.

The fair value of any options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. The employee benefit expense recognised in each year takes into account the most recent estimate.

Accounting for financial guarantee contracts

Financial guarantee contracts are measured initially at their fair values and subsequently measured at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies.

Earnings per share (EPS)

Basic EPS (excluding ROADS) is calculated as net profit attributable to members of the parent entity, divided by the weighted average number of ordinary shares. Basic EPS is calculated as net profit attributable to members of the parent entity, adjusted for the cost of servicing equity (other than ordinary shares), divided by the weighted average number of ordinary shares.

Diluted EPS is calculated as net profit attributable to members of the parent entity divided by the total of the weighted average number of ordinary shares on issue during the year and the number of dilutive potential ordinary shares.

Note 1. Summary of accounting policies - *continued*

Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

New accounting standards and interpretations

At the date of authorisation of the Preliminary Final Report, the standards and interpretations listed below were in issue but not yet effective. They will be applied in the Group's Financial Report related to the first annual reporting period commencing after the effective date.

Initial application of the following standards will not affect any of the amounts recognised in the Preliminary Final Report, but will change the disclosures presently made in relation to the Group's Financial Report:

- AASB 2009-12 'Amendments to Australian Accounting Standards arising from AASB 124'- Effective for annual reporting periods beginning on or after 1 January 2011; and
- AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project'- Effective for annual reporting periods beginning on or after 1 January 2011.

The following standards and amendments to standards have been identified as those which may impact the entity in the period of initial application. They have not been applied in preparing this Preliminary Final Report. The Group has not yet determined the potential effect of these standards on the Group's future Financial Reports.

- AASB 9 'Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9' - Effective for annual reporting periods beginning on or after 1 January 2013;
- AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' - Effective for annual reporting periods beginning on or after 1 January 2010;
- AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions' - Effective for annual reporting periods beginning on or after 1 January 2010; and
- AASB Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments' - Effective for annual reporting periods beginning on or after 1 July 2010.

Note 2. Segment information

Identification of reportable segments

Downer EDI has adopted AASB 8 'Operating Segments' and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 8' with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (AASB 114 'Segment Reporting') required an entity to identify two sets of segments (business and geographical) using a risks and rewards approach.

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the Board of Directors on a recurring basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the services provided, as these are the sources of the Group's major risks and have the greatest effect on the rates of return. The operating segments identified within the Group are outlined below:

Engineering and Consulting Services: provides engineering and consultancy services, design, project management, facilities management, construct and maintain, specialising in telecommunications, power, process engineering, mine consulting including mine planning and optimisation management;

Mining: provides blasting, bulk excavation, crushing and processing, haulage of ores/waste, tailings management and mine restoration;

Rail: provides rolling stock and associated maintenance services including the design, manufacture, refurbish, overhaul and maintenance of diesel electric locomotives, electric and diesel multiple units, rail wagons, traction motors and rolling stock; and

Works: provides maintenance and construction of roads and highways; construction and maintenance of rail infrastructure including tracks, signals and overhead electrification; maintenance of telecommunication networks including design, build and installation services and infrastructure maintenance services including utilities, water supply, sewage and waste water treatment, refuse disposal, street cleaning and the tending of parks and gardens.

Information regarding these segments is presented on the following page. Amounts reported for the prior period have been restated to conform to the requirements of AASB 8.

Note 2. Segment information - *continued*

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as the Group accounting policies contained in Note 1.

Inter-entity sales are recorded at amounts equal to competitive market prices charged to external customers for similar goods.

The following items and the associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

(a) Impairment of assets are not included in the measurement of segment profit or loss where they are not expected to recur. In the current year, the Group recognised a $190.0 million pre-tax provision on the NSW Waratah Rolling Stock Manufacture project and a $70.0 million pre-tax asset impairment charge. The provision and impairment charges are not included in the measure of segment profit or loss as they are not expected to recur. The details of the provision and impairment charges are separately disclosed as "individually significant items" in the consolidated income statement and discussed in Note 4;
(b) Interest income and finance cost;
(c) Corporate charges comprise non-segmental expenses such as head office expenses; and
(d) Income tax expense.

Information about major customers

The Group has no single external customer that provided more than 10% of the Group's revenue. Revenue by operating segment is shown below:

	Total revenue [i]		**Share of sales revenue in joint venture entities**		**Total revenue including joint ventures**	
	2010	2009	**2010**	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
By business segment						
Engineering and Consulting Services	**1,868,782**	1,985,275	**24,857**	15,022	**1,893,639**	2,000,297
Mining	**913,224**	973,890	**60,249**	54,069	**973,473**	1,027,959
Rail	**943,759**	888,925	**102,998**	-	**1,046,757**	888,925
Works	**2,058,278**	2,039,109	**23,064**	4,487	**2,081,342**	2,043,596
Inter-segment sales	**(12,647)**	(27,462)	**-**	-	**(12,647)**	(27,462)
Sub-Total	**5,771,396**	5,859,737	**211,168**	73,578	**5,982,564**	5,933,315
Unallocated	**73,371**	8,076	**-**	-	**73,371**	8,076
Total	**5,844,767**	5,867,813	**211,168**	73,578	**6,055,935**	5,941,391

[i] Total revenue includes other income and inter-segment sales, recorded at amounts equal to competitive market prices charged to external customers for similar goods.

Note 2. Segment information - *continued*

	Note	Segment results 2010 $'000	2009 $'000
By business segment			
Engineering and Consulting Services		**112,519**	116,602
Mining		**68,191**	46,547
Rail		**77,926**	60,765
Works		**102,901**	134,745
		361,537	358,659
Unallocated		**(308,175)**	(53,860)
Interest revenue	3	**18,103**	18,156
Interest expense	3	**(69,398)**	(63,930)
Net interest expense		**(51,295)**	(45,774)
Total profit before income tax		**2,067**	259,025
Income tax benefit/(expense)		**985**	(69,649)
Total net profit after income tax		**3,052**	189,376

Reconciliation of segment net operating profit to net profit after tax.	Note	2010 $'000	2009 $'000
Segment net operating profit		**361,537**	358,659
Unallocated:			
Provision of Waratah train contract	4	**(190,000)**	-
Impairment of goodwill	4	**(42,000)**	-
Provision for legacy customer contracts	4	**(18,000)**	-
Provision for MB Century investment	4	**(10,000)**	-
Total individually significant items		**(260,000)**	-
Impairment of MB Century		**(15,871)**	(4,968)
Gain on property sales [(i)]		**27,823**	-
Ramu arbitration award [(ii)]		**31,000**	-
Gain on disposal of MB Century classified as asset held for sale	3	**2,350**	-
Settlement/provision for customer contracts		**(32,914)**	-
Restructuring cost		**(5,300)**	-
Corporate costs		**(55,263)**	(48,892)
Total unallocated		**(308,175)**	(53,860)
Interest revenue		**18,103**	18,156
Interest expense		**(69,398)**	(63,930)
Total profit before income tax		**2,067**	259,025
Income tax benefit/(expense)		**985**	(69,649)
Total net profit after tax		**3,052**	189,376

(i) During the year a number of properties in Australia and New Zealand have been sold and/or subject to sale and lease back for gross proceeds of $66.1 million; net proceeds of $62.0 million and profit of $27.8 million.

(ii) Included within revenue is a net recovery of $31.0 million referable to an international arbitral award (Kina 86.4 million) awarded in the Group's favour in relation to the construction of the Ramu Highway in Papua New Guinea. The amount comprises the award less a provision against a GST receivable and expected costs to recover from the Papua New Guinea government. Interest which accrues at a rate of 13.95% (daily rate of Kina 13,700) has not been recognised as interest on the loan will be offset by the impacts of discounting future expected cash flows as required by Accounting Standards.

Note 2. Segment information - *continued*

	Segment assets		Segment liabilities		Depreciation and amortisation	
	2010	2009	**2010**	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
By business segment						
Engineering and Consulting Services	**823,576**	873,169	**452,976**	543,206	**22,961**	24,944
Mining	**693,969**	659,100	**257,223**	215,771	**71,057**	53,298
Rail	**790,101**	578,178	**364,888**	262,267	**6,746**	7,108
Works	**1,048,084**	1,053,237	**465,723**	376,595	**56,541**	55,409
Total	**3,355,730**	3,163,684	**1,540,810**	1,397,839	**157,305**	140,759
Unallocated	**100,270**	219,405	**672,339**	654,862	**2,854**	1,009
Total	**3,456,000**	3,383,089	**2,213,149**	2,052,701	**160,159**	141,768

	Carrying value of equity accounted investments		Share of net profit of equity accounted investments		Acquisition of segment assets	
	2010	2009	**2010**	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
By business segment						
Engineering and Consulting Services	**4,784**	4,556	**191**	1,398	**53,572**	49,675
Mining	**11**	-	**9,965**	7,773	**130,900**	207,026
Rail	**13,089**	-	**5,740**	-	**22,996**	31,096
Works	**4,526**	3,881	**2,126**	983	**35,066**	109,386
Total	**22,410**	8,437	**18,022**	10,154	**242,534**	397,183
Unallocated	**-**	-	**-**	-	**7,935**	1,164
Total	**22,410**	8,437	**18,022**	10,154	**250,469**	398,347

The economic entity operated in five principal geographical areas - Australia, Pacific (New Zealand, Papua New Guinea and Fiji), North East Asia (Hong Kong and China), South East Asia (Singapore, Malaysia, Thailand, Vietnam, Indonesia and the Philippines) and Other (United Kingdom, Canada, South Africa and Brazil).

	Total revenue (i)		Segment assets		Acquisition of segment assets	
	2010	2009	**2010**	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
By geographic location						
Australia	**4,529,942**	4,381,913	**2,729,457**	2,585,009	**226,134**	333,784
Pacific	**918,707**	981,300	**459,276**	466,139	**19,691**	52,090
North East Asia	**19,754**	44,700	**13,699**	37,100	**-**	1,200
South East Asia	**264,974**	321,500	**199,552**	198,941	**3,461**	4,200
Other	**111,390**	138,400	**54,016**	95,900	**1,183**	7,073
Total	**5,844,767**	5,867,813	**3,456,000**	3,383,089	**250,469**	398,347

(i) Total revenue includes other income and inter-segment sales, recorded at amounts equal to competitive market prices charged to external customers for similar goods.

Note 3. Profit from ordinary activities - continuing operations

	Note	Consolidated 2010 $'000	2009 $'000
a) Revenue			
Sales revenue			
Rendering of services		**3,899,035**	3,933,630
Mining services		**890,091**	942,442
Construction contracts		**892,971**	855,853
Sale of goods		**97,487**	102,743
Interest revenue			
Other loans and receivables	2	**18,103**	18,156
Other revenue			
Other revenue		**15,727**	5,814
Rental income		**944**	1,382
Dividends			
Other entities		**359**	1,390
		5,814,717	5,861,410
Other income			
Net income on disposal of property, plant and equipment		**27,700**	1,480
Gain on disposal of MB Century classified as asset held for sale	2	**2,350**	-
Net gain on disposal of assets held for sale		**-**	777
Net foreign exchange gains		**-**	4,146
Total other income		**30,050**	6,403
Total revenue and other income		**5,844,767**	5,867,813
Sales revenue from joint venture entities		**211,168**	73,578
Total revenue including joint ventures		**6,055,935**	5,941,391

Note 3. Profit from ordinary activities - continuing operations - *continued*

b) Operating expenses

	Note	Consolidated 2010 $'000	2009 $'000
Cost of goods sold		**69,616**	76,090
Finance costs on liabilities carried at amortised cost:			
Interest expense		**65,291**	62,269
Finance lease expense		**4,107**	1,661
Total interest and finance lease expense	2	**69,398**	63,930
Other finance costs		**2,870**	1,088
Total finance costs		**72,268**	65,018
Net foreign exchange losses		**527**	-
Depreciation and amortisation of non-current assets:			
Plant and equipment	16	**146,622**	130,471
Buildings	16	**2,931**	3,446
Amortisation of leased assets	16	**6,882**	2,430
Total depreciation		**156,435**	136,347
Amortisation of intellectual property	17	**3,724**	5,421
Total depreciation and amortisation		**160,159**	141,768
Doubtful debts		**1,770**	1,209
Operating lease expenses		**172,171**	157,461
Employee benefits expense:			
Defined contribution plans		**116,898**	115,975
Share-based transactions		**6,075**	8,677
Employee benefits		**1,852,619**	1,943,392
Total employee benefits expense		**1,975,592**	2,068,044
(Gain) arising on derivatives in a designated fair value hedge accounting relationship		**(1,487)**	(2,859)
Loss arising on adjustment to hedged item in a designated fair value hedge accounting relationship		**1,315**	2,993
		(172)	134

Note 4. Individually significant items

		Consolidated	
	Note	**2010 $'000**	2009 $'000
The following material items are relevant to an understanding of the Group's financial performance:			
(a) Provision for Waratah train contract	11 & 30	**190,000**	-
(b) Impairment of goodwill	17	**42,000**	-
(c) Provision for legacy customer contracts		**18,000**	-
(d) Provision for MB Century investment	26	**10,000**	-
		260,000	-

(a) Provision for Waratah train contract

On 1 June 2010 the Group announced a $190.0 million pre-tax provision on the Waratah Rolling Stock Manufacture (RSM) project following a full review of the contract. The review undertaken revealed that the tendered estimates do not sufficiently provide for the full extent of the design development and approval, material supply and time-related project overhead costs being incurred during the procurement and manufacturing phases of the contract. The provision represents the best professional estimate of the forward forecast cost-to-complete for a project of this size and complexity at this stage of completion and in the opinion of the Directors, remains appropriate.

(b) Impairment of goodwill

As required by Accounting standards, the Group undertook an assessment of the carrying value of assets, having had regard to the current and future operating performance of a number of businesses, where in the context of the operating environments within which they operate, there was an indication of impairment. Management identified impairments relating to goodwill in the Works UK business and in CPG New Zealand (Consulting arm of the Engineering Division) businesses totally $42.0 million.

The Works UK business was acquired in 2006. The weak UK economy has seen the business underperform and as a result an impairment of $20.0 million has been recognised.

Similarly, the CPG business in New Zealand has underperformed as a result of weak market sentiment resulting in an impairment of $22.0 million.

(c) Provision for legacy customer contracts

The Group is managing the settlement of a number of significant claims and disputes related to historic customer contracts, mainly in the Engineering division. An additional provision of $18.0 million was established to cover expected settlement outcomes in respect of these claims and disputes. Further information on claims and disputes is covered under contingent liabilities at Note 29.

(d) Provision for MB Century investment

A provision of $10.0 million was made on 1 June 2010 to reduce the carrying value of the asset held for sale in respect of MB Century to its realisable value. The additional provision was required primarily as a result of adverse movements in foreign exchange rates and expected further operational losses recorded by MB Century.

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Note 5. Income tax

a) Income tax recognised in the income statement

	Consolidated	
	2010	2009
	$'000	$'000
Tax expense comprises:		
Current tax expense	**48,875**	66,572
Deferred tax (benefit)/expense relating to the origination and reversal of temporary differences	**(49,860)**	3,077
Total tax (benefit)/expense	**(985)**	69,649

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the Preliminary Final Report as follows:

Profit before income tax	**2,067**	259,025
Income tax expense calculated at 30% of operating profit	**620**	77,708
• Amortisation of intangible assets	**148**	-
• Non-taxable gains	**(5,934)**	786
• Exempt income	**(823)**	(143)
• Non-deductible expenses	**477**	464
• Share of net profit of associates and joint ventures	**(307)**	(257)
• Effect of different rates of tax on overseas income/losses	**(5,473)**	(4,276)
• Research and development	**(4,300)**	(2,883)
• Benefits arising from previously unrecognised temporary differences	**(418)**	-
• Impairment of goodwill	**12,600**	-
• Other items	**3,017**	1,325
	(393)	72,724
Over provision of income tax in previous year	**(592)**	(3,075)
Income tax (benefit)/expense attributable to profit	**(985)**	69,649

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous year.

	Consolidated	
	2010	2009
	$'000	$'000
b) Income tax recognised directly in equity		
The following current and deferred amounts were charged directly to equity during the year:		
Current tax:		
• Unvested executive incentive shares	**1,547**	11,121
Deferred tax:		
Revaluations of financial instruments treated as:		
• Cash flow hedges	**11,993**	(38,489)
• Shared based costs	**(2,653)**	(7,416)
Total deferred tax charged to equity	**9,340**	(45,905)
Total charged/(credited) directly to equity	**10,887**	(34,784)

Note 6. Auditors' remuneration

	Consolidated 2010 $	2009 $
Deloitte Touche Tohmatsu earned the following remuneration from Downer EDI during the year:		
Audit and review of financial reports	**2,800,016**	2,986,615
Taxation services	**156,842**	42,264
Other services [(i)]	**150,529**	379,654
	3,107,387	3,408,533
Other auditors:		
Audit and review of financial reports	**833,348**	787,053
Taxation services	**572,875**	721,644
Other services	**-**	98,716
	1,406,223	1,607,413
Total auditors remuneration	**4,513,610**	5,015,946

(i) Other services relates to agreed upon procedures, accounting advice and corporate restructuring services.

Note 7. Earnings per share

	2010 Cents per share	2009 Cents per share
Earnings per share (EPS) from continuing operations:		
Basic EPS (excluding ROADS)	**0.9**	57.9
Basic EPS	**(2.4)**	54.4
Diluted EPS	**(2.4)**	52.7

2010	**Basic EPS (excluding ROADS)**	**Basic EPS**	**Diluted EPS**
Profit attributable to members of the parent entity ($'000)	**2,957**	**2,957**	**2,957**
Profit adjustment to reflect ROADS dividends paid ($'000)	**-**	**(11,020)**	**-**
Profit attributable to members of the parent entity used in calculating EPS ($'000)	**2,957**	**(8,063)**	**2,957**
Weighted average number of ordinary shares (WANOS) on issue (No. (000's))	**333,663**	**333,663**	**333,663**
WANOS adjustment to reflect potential dilution for ROADS (No. (000's)) [(i)]	**-**	**-**	**23,877**
WANOS used in the calculation of EPS (No. (000's))	**333,663**	**333,663**	**357,540**
Earnings per share from continuing operations (cents per share)	**0.9**	**(2.4)**	**(2.4)** [(ii)]

(i) The WANOS adjustment is calculated based on the issued value of ROADS ($178,603,000) divided by the average market price ($7.48) of the company's ordinary shares for the financial year ended 30 June 2010. The average market price was used in the calculation as it produces a more representative price by taking into consideration the fluctuating share price during the financial year.

(ii) At 30 June 2010, the ROADS are deemed anti-dilutive hence Diluted EPS remained at (2.4) cents per share.

Note 7. Earnings per share - *continued*

2009	**Basic EPS (excluding ROADS)**	**Basic EPS**	**Diluted EPS**
Profit attributable to members of the parent entity ($'000)	189,376	189,376	189,376
Profit adjustment to reflect ROADS dividends paid ($'000)	-	(11,331)	-
Profit attributable to members of the parent entity used in calculating EPS ($'000)	189,376	178,045	189,376
Weighted average number of ordinary shares (WANOS) on issue (No. (000's))	327,066	327,066	327,066
WANOS adjustment to reflect potential dilution for ROADS (No. (000's)) [(i)]	-	-	31,951
WANOS used in the calculation of EPS (No. (000's))	327,066	327,066	359,017
Earnings per share from continuing operations (cents per share)	57.9	54.4	52.7

[(i)] The WANOS adjustment is calculated based on the issued value of ROADS ($178,603,000) divided by the closing market price ($5.59) of the company's ordinary shares at 30 June 2009.

Note 8. Dividends

	Final 2010	Final 2009	**Interim 2010**	Interim 2009
a) Ordinary shares				
Dividend per share (in Australian cents)	**16.0**	16.0	**13.1**	13.0
Franking percentage	**unfranked**	unfranked	**unfranked**	unfranked
Cost (in $'000)	**53,853**	52,972	**43,712**	42,483
Payment date	**1/10/2010**	2/10/2009	**9/04/2010**	14/04/2009
Dividend record date	**1/09/2010**	1/09/2009	**9/03/2010**	11/03/2009

The final 2010 dividend has not been declared at the reporting date and therefore not reflected in the Preliminary Final Report.

b) Redeemable Optionally Adjustable Distributing Securities (ROADS)	**Quarter 4 2010**	**Quarter 3 2010**	**Quarter 2 2010**	**Quarter 1 2010**	**Total 2010**
Dividend per ROADS (in Australian cents)	**1.39**	**1.33**	**1.38**	**1.41**	**5.51**
New Zealand imputation credit percentage per ROADS	**100%**	**100%**	**100%**	**100%**	**100%**
Cost (in $A'000)	**2,787**	**2,658**	**2,762**	**2,813**	**11,020**
Payment date	**15/06/2010**	**15/03/2010**	**15/12/2009**	**15/09/2009**	

	Quarter 4 2009	Quarter 3 2009	Quarter 2 2009	Quarter 1 2009	Total 2009
Dividend per ROADS (in Australian cents)	1.37	1.42	1.43	1.43	5.65
New Zealand imputation credit percentage per ROADS	100%	100%	100%	100%	100%
Cost (in $A'000)	2,746	2,839	2,868	2,878	11,331
Payment date	15/06/2009	16/03/2009	15/12/2008	15/09/2008	

	Company	
	2010	2009
Franking credits	**$'000**	$'000
Franking account balance	**-**	-

Notes to the Preliminary Final Report - *continued*
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Note 9. Cash and cash equivalents

	Note	Consolidated 2010 $'000	2009 $'000
Cash at bank and in hand		**381,776**	288,715
Short-term deposits		**3,350**	10,748
	35	**385,126**	299,463

Note 10. Inventories

Current			
Raw materials - at cost		**116,081**	115,348
Work in progress - at cost		**2,520**	6,542
Finished goods - at cost		**16,686**	19,862
Components and spare parts - at cost		**57,851**	56,644
		193,138	198,396

Note 11. Trade and other receivables

Current			
Trade receivables		**504,739**	569,809
Allowance for doubtful debts	11(b)	**(4,606)**	(8,198)
		500,133	561,611
Amounts due from customers under contracts and rendering of services (i)		**803,525**	556,282
Provision for Waratah train project	4	**(190,000)**	-
	30	**613,525**	556,282
Other receivables		**70,220**	47,565
		1,183,878	1,165,458

(i) 2009 figure includes $173,530 thousands of unbilled revenue from customers for service and construction contracts that was previously disclosed under trade receivables.

Non-current			
Other receivables		**-**	14,949
Total trade and other receivables		**1,183,878**	1,180,407

a) Of the total $504,739 thousand (2009: $569,809 thousand) of trade receivables, $359,144 thousand (2009: $359,269 thousand) are current (that is within 30 days). Management considers that there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Of the total receivables of $504,739 thousand (2009: $569,809 thousand):

- $74 thousand (2009: $nil) are renegotiated receivables and management has assessed that these are all recoverable and no impairment has been taken.
- $140,915 thousand (2009: $202,342 thousand) are past due but not impaired with an average of more than 76 days. These relate to a number of customers for whom there is no recent history of default and other indicators of impairment. Management considers that no provision is required on these balances. The consolidated entity does not hold any collateral over these balances.
- $4,606 thousand (2009: $8,198 thousand) are impaired and have been provided for. An allowance account has been made for estimated irrecoverable trade receivable amounts arising from the past rendering of services, determined by reference to past default experience.

Note 11. Trade and other receivables - *continued*

b) Movement in the allowance for doubtful debts

	Consolidated	
	2010	2009
	$'000	$'000
Balance at beginning of financial year	**(8,198)**	(6,989)
Additional provisions	**(5,355)**	(5,927)
Amounts used	**5,178**	1,493
Amounts reversed	**3,585**	3,094
Foreign currency exchange differences	**184**	131
Balance at end of financial year	**(4,606)**	(8,198)

The consolidated entity has used the following basis to assess the allowance loss for trade receivables:
i) a specific provision based on historical bad debt experience;
ii) the general economic conditions in specific geographical regions;
iii) an individual account by account specific risk assessment based on past credit history; and
iv) any prior knowledge of debtor insolvency or other credit risk.

Note 12. Other financial assets

Current		
Available-for-sale investments	**2,149**	2,891
Foreign currency forward contracts	**6,894**	1,405
Cross currency and interest rate swaps	**303**	2,432
Fair value through profit and loss investments	**2,607**	3,197
Advances to joint venture entities	**-**	1,090
Other financial assets	**755**	1,139
	12,708	12,154
Non-current		
Available-for-sale investments	**15,236**	15,527
Foreign currency forward contracts	**2,125**	1,970
Cross currency and interest rate swaps	**4,210**	3,703
Fair value through profit and loss investments	**3,723**	-
Deferred consideration receivable	**860**	1,226
Other financial assets	**9,800**	20
	35,954	22,446
Total other financial assets	**48,662**	34,600

Note 13. Tax assets

	Note	Consolidated 2010 $'000	2009 $'000
Current			
Current tax assets		**13,765**	13,920
Non-current			
a) Deferred tax assets		**123,280**	87,450

b) Movement in deferred tax assets for the financial year:

	Note	2010 $'000	2009 $'000
Balance at beginning of the financial year		**180,620**	277,414
Charged to income statement as deferred income tax benefit/(expense)	13(d)	**34,380**	(11,369)
Charged to equity		**13,334**	(40,852)
Acquisitions of businesses	25(c)	**660**	427
Net foreign currency exchange differences		**(1,459)**	119
Transfers/ utilisation of losses		**(33,194)**	(44,717)
Disposal of entities and operations		**-**	(74)
Other		**(1,776)**	(328)
Balance at end of the financial year (gross)	13(c)	**192,565**	180,620
Set-off of deferred tax liabilities within the same tax jurisdiction	22(b)	**(69,285)**	(93,170)
Net deferred tax assets at end of financial year		**123,280**	87,450

c) Deferred tax assets at the end of the financial year
(prior to offsetting balances within the same tax jurisdiction)
are attributable to:

	2010 $'000	2009 $'000
Trade and other receivables	**59,168**	24,605
Inventories	**3,996**	4,678
Property, plant and equipment	**7,827**	7,803
Equity accounted investments	**877**	617
Trade and other payables	**18,749**	23,421
Provisions	**61,605**	52,810
Borrowings	**872**	892
Income tax losses	**25,855**	59,296
Hedges and foreign exchange movements	**12,307**	4,603
Other	**1,309**	1,895
Total deferred tax assets (gross)	**192,565**	180,620

d) Amounts charged to income statement as deferred
income tax (expense)/benefit:

	2010 $'000	2009 $'000
Trade and other receivables	**28,341**	(2,422)
Inventories	**(673)**	1,170
Property, plant and equipment	**1,177**	9,380
Equity accounted investments	**636**	282
Trade and other payables	**(1,771)**	(3,383)
Provisions	**8,102**	(20,621)
Borrowings	**(20)**	724
Income tax losses	**2,524**	7,102
Hedges and foreign exchange movements	**(18)**	12,289
Other	**616**	(136)
Deferred tax assets in relation to prior years	**(4,534)**	(15,754)
Charged to income statement as deferred income tax benefit/(expense)	**34,380**	(11,369)

Notes to the Preliminary Final Report - *continued*
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Note 14. Other assets	**Note**	**Consolidated 2010 $'000**	**2009 $'000**
Current			
Prepayments		**21,887**	20,842
Other deposits		**3,072**	4,119
Other current assets		**3,828**	7,349
		28,787	32,310
Non-current			
Prepayments		**5,464**	6,245
Total other assets		**34,251**	38,555

Note 15. Equity-accounted investments

Equity-accounted investments	15(b)	**22,410**	8,437

a) The consolidated entity has interests in the following joint venture operations which are proportionately consolidated for:

Name of entity	**Principal activity**	**Country of incorporation**	**Ownership interest 2010 %**	**2009 %**
Airfield Works Joint Venture (i)	Airfield works	Hong Kong	**-**	49
BPL Downer Joint Venture	Building construction	Singapore	**50**	50
CHDE Joint Venture (i)	Pumping station refurbishment	Australia	**-**	50
Clough Downer Joint Venture (i)	Construction of port facilities	Australia	**-**	50
Cortex Downer Joint Venture (i)	Shared conveyers and shiploader	Australia	**-**	50
Downer CSS Joint Venture	Telecommunications	Thailand	**60**	60
Downer Electrical GHD JV	Traffic control infrastructure	Australia	**90**	-
Downer Zublin Joint Venture (i)	Tsing Yi Tunnel / East Lantau Tunnel	Hong Kong	**-**	50
Leighton Works	Road construction	New Zealand	**50**	50
Lantau Expressway Joint Venture	North Lantau expressway	Hong Kong	**27**	27
Playford Power Station Joint Venture	Refurbishment of power station	Australia	**50**	50
Project Westernport	Construction of bitumen storage facility	Australia	**50**	50
St Ives Gold Project Joint Venture (i)	Design and construction of mining treatment plant	Australia	**-**	50
Tenix Downer Joint Venture	Power transmission and distribution	Australia	**50**	50

(i) These joint ventures have been dissolved during the financial year ended 30 June 2010.

Note 15. Equity-accounted investments - *continued*

b) The consolidated entity and its controlled entities have interests in the following joint venture and associates entities which are equity accounted for:

Name of entity	Principal activity	Country of incorporation	Ownership interest 2010 %	2009 %
Joint ventures:				
Alex Fraser Asphalt Production [(i)]	Asphalt production and sales	Australia	**-**	50
Allied Asphalt Limited	Asphalt plant	New Zealand	**50**	50
EDI Rail-Bombardier Transportation (Maintenance) Pty Ltd	Maintenance of railway rolling stock	Australia	**50**	50
EDI Rail-Bombardier Transportation Pty Ltd	Sale and maintenance of railway rolling stock	Australia	**50**	50
Emulco	Emulsion plant	New Zealand	**50**	50
John Holland EDI Joint Venture	Research reactor	Australia	**40**	40
MPE Facilities Management Sdn Bhd	Facilities management consultancy service	Malaysia	**50**	50
Pavement Salvage (SA) Pty Ltd [(ii)]	Pavement repair	Australia	**-**	50
Roche Thiess Linfox Joint Venture	Contract mining; civil works and plant hire	Australia	**44**	44
SIP Jiacheng Property Development Co Ltd	Property development	China	**50**	50
Western Lee Joint Venture [(ii)]	Maintenance- Alcoa	Australia	**-**	50
Thiess Downer EDI Works	Construction of coast to coast railway	Australia	**25**	-
Downer Mouchel	Road maintenance	Australia	**50**	-
Associates:				
Aromatrix Technologies Pte Ltd	Environmental engineering and consultancy services	Singapore	**33**	33
Clyde Babcock Hitachi (Australia) Pty Ltd	Design, construction and maintenance of boilers	Australia	**27**	27
CPG-KCPT Pte Ltd [(ii)]	Security design consultancy services	Singapore	**-**	30
D'axis Planners & Consultants Co. Ltd	Master planning & consulting service	China	**40**	-
Reliance Rail Pty Ltd	Rail manufacturing and maintenance	Australia	**49**	49
KDR Victoria Pty Ltd	Operating Yarra Trams and Melbourne tram network	Australia	**49**	-

(i) This joint venture has been sold off during the financial year ended 30 June 2010.

(ii) These joint ventures and associate have been disposed or closed off during the financial year ended 30 June 2010.

Note 15. Equity-accounted investments - *continued*

Equity accounted investments	Consolidated 2010 $'000	2009 $'000
Equity accounted amount of investment at the beginning of the financial year	**8,437**	7,146
• Share of net profit	**18,022**	10,154
• Share of distributions	**(12,708)**	(9,895)
• Additional interest in joint venture entities	**10,584**	961
• Disposals of interest in joint venture entities	**(1,902)**	-
• Foreign currency exchange differences	**(23)**	71
Equity accounted investment at the end of the financial year	**22,410**	8,437

Share of results of joint venture entities and associates

Revenue	**211,168**	73,578
Expenses	**(189,992)**	(63,167)
	21,176	10,411

Summarised financial information of the consolidated entity's share of the above joint venture entities and associates:

Current assets	**102,352**	20,015
Non-current assets	**38,393**	38,433
Total assets	**140,745**	58,448
Current liabilities	**101,071**	34,885
Non-current liabilities	**17,758**	10,042
Total liabilities	**118,829**	44,927
Net assets	**21,916**	13,521

Investments in associates

Reliance Rail Pty Ltd
The Group has a 49% investment in Reliance Rail. The investment initially totalled $67.0 million and comprised $66.3 million A1 notes included as part of 'Other Financial Assets' and $0.7 million included as part of 'Equity Accounted Investments'. The Group equity accounts for its share of profit and loss and hedge reserve movements in accordance with AASB 128 - Investments in Associates.

Up to 30 June 2008, the Group had equity accounted its share of Reliance Rail's net profit and movements in equity (resulting from changes in the fair value of derivative financial instruments accounted for as hedges) such that its carrying value at that date was $31.0 million and the hedge reserve recognised was $48.0 million. During the period ended 31 December 2008, unfavourable fair value movements in derivative financial instruments held by Reliance Rail were greater than the Group's carrying value of its investment in Reliance Rail. Under the accounting elections made by the Group, this had the effect of reducing the carrying value of the investment to nil and increasing the hedge reserve balance to $79.1 million. With effect from May 2009, Reliance Rail ceased hedge accounting for its financial derivative instruments. The hedge reserve is being amortised over the life of the Waratah Public Private Partnership Through Life Support contract as explained in Note 24.

Note 15. Equity-accounted investments - *continued*

The Group has continued to equity account its share of Reliance Rail's net profit in each reporting period. At 30 June 2009, the carrying value of the investment in Reliance Rail was $59.0 million, mainly due to favourable fair value movements in derivative financial instruments held by Reliance Rail. Due to the uncertainties associated with the investment in Reliance Rail, the Group raised a provision for impairment of $59.0 million in the prior year to continue to recognise the net investment in Reliance Rail at nil.

The Group's share of losses in Reliance Rail for the year ended 30 June 2010 was $67.3 million. As the carrying value of the investment was $59.0 million this value has been reduced to nil and the provision for impairment raised in the prior year has been reversed. There has been no net impact on the income statement in the current or prior years as a result of the equity accounting for Reliance Rail.

	Consolidated	
	2010	2009
	$'000	$'000
Movement in 49% investment in Reliance Rail		
Equity accounted amount of investment at the beginning of the financial year	**-**	31,132
Share of reserve movements	**2,637**	(31,132)
Share of profits recognised for the period [(i)]	**(61,670)**	59,033
Allowance against investment	**59,033**	(59,033)
Equity accounted amount of investment at the end of the financial year	**-**	-

[(i)] The Group's share of losses in the current year was $67.3 million (based on unaudited accounts). The loss was mainly due to unfavourable fair value movements in derivative financial instruments held by Reliance Rail. Downer has recognised its share of losses in Reliance Rail up to the carrying value of the investment ($59.0 million). Downer has recognised only $61.7 million of its share of losses which reduces the carrying value of its investment in Reliance Rail to nil.

Unaudited summarised financial position of Reliance Rail

Current assets	**1,023,335**	612,325
Non-current assets	**1,047,586**	1,453,580
Total assets	**2,070,921**	2,065,905
Current liabilities	**70,862**	48,418
Non-current liabilities	**2,010,183**	1,895,552
Total liabilities	**2,081,045**	1,943,970
Net (liabilities)/assets	**(10,124)**	121,935
Group's share of associate's net (liabilities)/assets	**(4,961)**	59,748

KDR Victoria Pty Ltd
The Group has a 49% investment in KDR Victoria with Keolis to operate the trams in Melbourne, Victoria. The initial investment totalled $17.2 million and comprised $9.8 million subordinated loan included as part of 'Other Financial Assets' and $7.4 million included as part of 'Equity Accounted Investments'. The Group equity accounts for its share of profit and loss in accordance with AASB 128 - Investments in Associates.

c) Contingent liabilities and capital commitments

The consolidated entity's share of the contingent liabilities and expenditure commitments of joint venture entities are included in Note 29.

Note 16. Property, plant and equipment

	Consolidated				
2010	**Freehold Land $'000**	**Buildings $'000**	**Plant and Equipment $'000**	**Equipment under Finance Lease $'000**	**Total $'000**
At 1 July 2009					
Cost	**26,170**	**65,246**	**1,383,265**	**55,708**	**1,530,389**
Accumulated depreciation	**-**	**(17,707)**	**(663,077)**	**(3,301)**	**(684,085)**
Net book value	**26,170**	**47,539**	**720,188**	**52,407**	**846,304**
Year ended 30 June 2010					
Additions	**1,887**	**10,327**	**211,790**	**489**	**224,493**
Disposals at net book value	**(16,626)**	**(15,764)**	**(27,051)**	**(168)**	**(59,609)**
Acquisition of businesses (Note 25(c))	**-**	**-**	**10,564**	**1,309**	**11,873**
Depreciation expense (Note 3(b))	**-**	**(2,931)**	**(146,622)**	**(6,882)**	**(156,435)**
Impairment	**-**	**-**	**(4,417)**	**-**	**(4,417)**
Reclassifications at net book value	**(118)**	**(957)**	**(5,368)**	**6,443**	**-**
Net foreign currency exchange differences at net book value	**75**	**(468)**	**291**	**(31)**	**(133)**
Closing net book value	**11,388**	**37,746**	**759,375**	**53,567**	**862,076**
At 30 June 2010					
Cost	**11,388**	**54,029**	**1,499,571**	**64,271**	**1,629,259**
Accumulated depreciation	**-**	**(16,283)**	**(740,196)**	**(10,704)**	**(767,183)**
Closing net book value	**11,388**	**37,746**	**759,375**	**53,567**	**862,076**

	Consolidated				
2009	**Freehold Land $'000**	**Buildings $'000**	**Plant and Equipment $'000**	**Equipment under Finance Lease $'000**	**Total $'000**
At 1 July 2008					
Cost	22,135	63,014	1,179,754	13,099	1,278,002
Accumulated depreciation	-	(14,395)	(599,115)	(2,304)	(615,814)
Net book value	22,135	48,619	580,639	10,795	662,188
Year ended 30 June 2009					
Additions	249	3,613	286,776	49,875	340,513
Disposals at net book value	(69)	(398)	(42,663)	-	(43,130)
Acquisition of businesses	1,093	1,290	20,083	253	22,719
Disposals of business at net book value	-	-	(34)	-	(34)
Depreciation expense (Note 3(b))	-	(3,446)	(130,471)	(2,430)	(136,347)
Reclassifications at net book value	2,678	(2,249)	5,707	(6,136)	-
Net foreign currency exchange differences at net book value	84	110	151	50	395
Closing net book value	26,170	47,539	720,188	52,407	846,304
At 30 June 2009					
Cost	26,170	65,246	1,383,265	55,708	1,530,389
Accumulated depreciation	-	(17,707)	(663,077)	(3,301)	(684,085)
Closing net book value	26,170	47,539	720,188	52,407	846,304

Note 17. Intangible assets

	Consolidated		
2010	**Goodwill $'000**	**Intellectual Property / software $'000**	**Total $'000**
At 1 July 2009			
Cost	**604,412**	**24,514**	**628,926**
Accumulated amortisation	**-**	**(18,956)**	**(18,956)**
Net book value	**604,412**	**5,558**	**609,970**
Year ended 30 June 2010			
Purchases	**-**	**3,985**	**3,985**
Acquisition of businesses (Note 25(a))	**25,440**	**-**	**25,440**
Amortisation expense (Note 3(b))	**-**	**(3,724)**	**(3,724)**
Impairment (Note 4)	**(42,000)**	**-**	**(42,000)**
Net foreign currency exchange differences at net book value	**(4,236)**	**(21)**	**(4,257)**
Closing net book value	**583,616**	**5,798**	**589,414**
At 30 June 2010			
Cost	**625,616**	**28,523**	**654,139**
Accumulated amortisation and impairment	**(42,000)**	**(22,725)**	**(64,725)**
Closing net book value	**583,616**	**5,798**	**589,414**

	Consolidated		
2009	**Goodwill $'000**	**Intellectual Property / software $'000**	**Total $'000**
At 1 July 2008			
Cost	573,800	15,677	589,477
Accumulated amortisation	-	(10,752)	(10,752)
Net book value	573,800	4,925	578,725
Year ended 30 June 2009			
Purchases	-	1,824	1,824
Acquisition of businesses (Note 25(a))	31,221	722	31,943
Reclassifications at net book value	(1,193)	1,193	-
Amortisation expense (Note 3(b))	-	(5,421)	(5,421)
Net foreign currency exchange differences at net book value	584	2,315	2,899
Closing net book value	604,412	5,558	609,970
At 30 June 2009			
Cost	604,412	24,514	628,926
Accumulated amortisation	-	(18,956)	(18,956)
Closing net book value	604,412	5,558	609,970

Note 17. Intangible assets - *continued*

Allocation of goodwill to cash-generating units (CGUs)

In the current year, following a restructuring, management has revised the CGUs to reflect the way in which the Group now operates and the units that independently generate cash flows.

Goodwill has been allocated for impairment testing purposes to individual cash generating units taking into consideration geographical spread, resource allocation, how operations are monitored and where independent cash inflows are identifiable. Thirteen independent CGUs have been identified across the Group against which impairment testing has been undertaken.

	Consolidated	
	2010	2009
	$'000	$'000
CPG Australia	**14,953**	14,582
CPG Singapore	**34,462**	35,181
CPG New Zealand	**8,120**	29,938
CPG Resources	**20,921**	21,014
Downer Asia	**10,620**	12,812
Engineering Contracting	**111,130**	88,491
Engineering Projects	**25,492**	25,492
Engineering Power Systems	**3,870**	3,870
Works Australia	**169,679**	166,879
Works New Zealand	**46,900**	46,609
Works United Kingdom	**2,346**	24,413
Mining	**65,545**	65,545
Rail	**69,578**	69,586
	583,616	604,412

Recoverable amount testing

The carrying amount of goodwill is tested for impairment annually at 30 June and whenever there is an indicator that the asset may be impaired. The Group believed that there was an indication of impairment within the Works UK business and CPG New Zealand (Consulting arm of the Engineering Division) and therefore tested for impairment immediately prior to 1 June 2010 as well as at 30 June 2010. Where an asset is deemed impaired, it is written down to its recoverable amount.

In its impairment assessment, the Group assumes the recoverable amount based on a value in use calculation using cash flow projections based on the Group's budget and financial forecasts, and including a terminal value. Key assumptions used for impairment testing include:

Note 17. Intangible assets - *continued*

Recoverable amount testing - *continued*

Projected cash flows
Cash flow projections are based on the Board approved 2010/11 (FY11) budget for the 12 months to 30 June 2011. The FY11 cash flows have been extended for the subsequent financial years ending 30 June 2012 to 30 June 2015 by applying division specific growth estimates and assuming a 2.5% terminal growth rate to allow for organic growth on the existing asset base. Cash flows are then determined utilising the calculated Earnings Before Interest, Tax and Amortisation (EBITA) less tax, capital maintenance spending and working capital changes to provide a 'free cash flow' estimate.

Growth rate estimates
The future annual growth rates are consistent with internal forecasts and expected performance of each CGU being tested for impairment.

Discount rates
Discount rates of between 10.9% and 12.3% (2009: between 10.8% and 12.1%) reflect management's estimate of the time-value of money and risks specific to each CGU. In determining the appropriate discount rate for each unit, regard has been given to the estimated weighted average cost of capital (WACC) for the Group adjusted for country and business risk specific to that CGU.

Gross margin
This has been based on historical margins achieved with changes where appropriate for expected efficiency improvements.

Working capital
Working capital has been maintained to support the underlying business plus allowances for growth of each business unit.

Capital expenditure
Capital expenditure included in the calculation is for maintenance capital used for existing plant and replacement of plant as it is retired from service. The resulting expenditure has been compared against the annual depreciation charge to ensure that it is reasonable.

Sensitivities
Sensitivity analysis has been undertaken for each CGU by varying terminal growth and discount rates. Assuming no material variation in these assumptions compared to those used in the analysis, the carrying value of the CGUs exceed their recoverable amount.

Note 18. Trade and other payables

		Consolidated	
	Note	**2010 $'000**	2009 $'000
Current			
Trade payables		**351,753**	292,646
Amounts due to customers under contracts and rendering of services	30	**230,665**	263,189
Accruals		**300,720**	276,321
Goods and services tax payable		**25,097**	37,327
Other		**79,031**	76,541
		987,266	946,024
Non-current			
Other		**713**	2,192
Total trade and other payables		**987,979**	948,216

Note 19. Borrowings

	Note	2010 $'000	2009 $'000
Current			
Secured:			
Finance lease liabilities	28(c)	**8,328**	8,006
Hire purchase liabilities	28(d)	**1,337**	1,576
Bank Loans		**5,000**	-
		14,665	9,582
Unsecured:			
Bank loans		**240,197**	14,819
Bank overdraft	27(a)	**6,744**	7,240
AUD medium term notes (Series I)		**-**	81,256
AUD medium term notes (Series II)		**13,283**	6,641
USD notes		**-**	97,792
Deferred finance charges		**(2,722)**	(1,491)
		257,502	206,257
Total current borrowings	35	**272,167**	215,839
Non-current			
Secured:			
Finance lease liabilities	28(c)	**39,450**	45,914
Hire purchase liabilities	28(d)	**4,413**	3,894
Bank loans		**-**	10,000
		43,863	59,808
Unsecured:			
Bank loans		**116,384**	317,644
USD notes		**92,701**	97,912
Works Bond		**121,872**	-
AUD medium term notes (Series II)		**93,025**	106,309
AUD medium term notes (Series III)		**152,571**	-
Deferred finance charges		**(3,404)**	(3,015)
		573,149	518,850
Total non-current borrowings	35	**617,012**	578,658
Total borrowings		**889,179**	794,497

Note 19. Borrowings - *continued*

Financing facilities

At 30 June 2010, the consolidated entity had the following facilities that were not utilised at balance date:

	2010 $'000	2009 $'000
Syndicated bank loan facilities	**235,624**	200,393
Bilateral bank loan facilities	**197,723**	257,695
Total unutilised loan facilities	**433,347**	458,088
Syndicated bank bonding facility	**42,374**	26,874
Bilateral bank and insurance company bonding facilities	**351,720**	192,716
Total unutilised bonding facilities	**394,094**	219,590
Total facilities that were not utilised at balance date	**827,441**	677,678

Bank loans

Syndicated loan facilities

Syndicated bank loans while unsecured, are subject to certain Group guarantee arrangements, incur interest at floating rates and have varying maturity dates, from June 2011 to May 2012.

Bilateral bank loans and overdrafts

Bilateral bank loans and overdrafts while unsecured, are subject to certain Group guarantee arrangements, incur interest at floating rates and have varying maturity dates of up to two years.

USD notes

USD unsecured notes are on issue for a total amount of USD 79.0 million and are subject to certain Group guarantee arrangements. The notes mature in various tranches in 2011, 2014 and 2019. The USD principal and interest have been fully hedged to Australian dollars. Interest is payable to note holders on a semi annual fixed rate basis. The fair value of the USD notes is disclosed in Note 35.

AUD medium term notes ('MTN') - Series I

During 2005/06 and 2006/07 unsecured MTN's were issued for a total amount of $80.0 million. The MTN's are subject to certain Group guarantee arrangements. Interest is payable on a semi annual fixed rate basis. The notes matured in December 2009.

AUD medium term notes ('MTN') - Series II

During 2008/09 unsecured MTN's were issued for a total amount of $113.0 million. The MTN's are subject to certain Group guarantee arrangements. Interest is payable on a semi annual floating rate basis. The note issue amortises through even semi annual instalments, until the final maturity date in April 2018.

AUD medium term notes ('MTN') - Series III

During 2009/10 unsecured MTN's were issued for a total amount of $150.0 million. The MTN's are subject to certain group guarantee arrangements. Interest is payable on a semi annual fixed rate basis. The notes mature in October 2013.

Works New Zealand Bonds

During 2009/10 unsecured bonds were issued for a total amount of NZD150.0 million. The bonds are subject to certain Group guarantee arrangements. Interest is payable on a quarterly fixed rate basis. The bonds mature in September 2012.

Hire purchase and lease facilities

Hire purchase and finance lease facilities are secured by the specific assets financed.

Note 19. Borrowings - *continued*

Covenants on financing facilities
The Group's financing facilities contain covenants requiring the Group to meet certain financial ratios and reporting requirements, as well as minimum levels of subsidiaries that are guarantors of obligations under those facilities. Testing of covenant compliance takes place twice-yearly for the rolling 12 month periods to 30 June and 31 December. The Group was in compliance with covenants as at 30 June 2010.

Note 20. Other financial liabilities

	Consolidated	
	2010	2009
	$'000	$'000
Current		
Foreign currency forward contracts	**24,243**	26,205
Cross currency and interest rate swaps	**1,260**	4,841
Advances from joint venture entities	**16,010**	16,676
	41,513	47,722
Non-current		
Foreign currency forward contracts	**27,333**	8,568
Cross currency and interest rate swaps	**12,264**	12,568
	39,597	21,136
Total other financial liabilities	**81,110**	68,858

Note 21. Provisions

	Consolidated				
	Employee benefits	**Decommi-ssioning**	**Contract claims / warranties**	**Other**	**Total**
At 1 July 2009	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Current	**139,990**	**8,798**	**29,834**	**6,948**	**185,570**
Non-current	**18,715**	**7,056**	**1,413**	**-**	**27,184**
Total	**158,705**	**15,854**	**31,247**	**6,948**	**212,754**
At 1 July 2009	**158,705**	**15,854**	**31,247**	**6,948**	**212,754**
Additional provisions recognised	**184,753**	**175**	**21,931**	**22,607**	**229,466**
Unused provision reversed	**(7,679)**	**(1,463)**	**(2,471)**	**(98)**	**(11,711)**
Utilisation of provision	**(178,417)**	**(1,323)**	**(23,041)**	**(2,502)**	**(205,283)**
Acquisition of businesses (Note 25(c))	**1,779**	**-**	**-**	**-**	**1,779**
Net foreign currency exchange difference	**51**	**(3)**	**(6)**	**(471)**	**(429)**
At 30 June 2010	**159,192**	**13,240**	**27,660**	**26,484**	**226,576**
Current	**139,196**	**6,403**	**27,660**	**26,155**	**199,414**
Non-current	**19,996**	**6,837**	**-**	**329**	**27,162**
Total	**159,192**	**13,240**	**27,660**	**26,484**	**226,576**

Note 22. Tax liabilities

	Note	Consolidated 2010 $'000	2009 $'000
Current			
Current tax overseas entities		**5,012**	10,205
Non-current			
a) Deferred tax liability		**23,293**	18,171

b) Movement in deferred tax liability for the financial year:

	Note	2010 $'000	2009 $'000
Balance at beginning of the financial year		**111,341**	113,159
Charged to income statement as deferred income (benefit)	22(d)	**(15,480)**	(8,292)
Charged to equity		**3,994**	5,053
Acquisition of businesses		**-**	568
Net foreign currency exchange differences		**5**	(473)
Disposal of entities and operations		**-**	(74)
Transfer/other		**(7,282)**	1,400
Balance at end of the financial year (gross)	22(c)	**92,578**	111,341
Set-off of deferred tax assets within the same tax jurisdiction	13(b)	**(69,285)**	(93,170)
Net deferred tax liability		**23,293**	18,171

c) Deferred tax liabilities at the end of the financial year (prior to offsetting balances within the same tax jurisdiction) are attributable to:

	2010 $'000	2009 $'000
Property, plant & equipment	**9,014**	2,337
Inventories	**(2,159)**	2,512
Intangible assets	**(156)**	83
Trade and other receivables	**63,462**	64,610
Other current assets	**2,551**	6,906
Investments accounted for using the equity method	**1,722**	-
Trade and other payables	**3,599**	9,328
Provisions	**138**	2,901
Borrowings	**199**	121
Hedges and foreign exchange movements	**9,568**	17,136
Other	**4,640**	5,407
Total deferred tax liabilities (gross)	**92,578**	111,341

d) Amounts charged to income statement as deferred income tax expense/(benefit):

	2010 $'000	2009 $'000
Property, plant & equipment	**5,750**	(353)
Inventories	**(7,379)**	(4,917)
Intangible assets	**(241)**	(120)
Trade and other receivables	**(2,133)**	5,050
Other assets	**(3,135)**	2,852
Trade and other payables	**(6,588)**	5,588
Borrowings	**60**	117
Provisions	**(2,524)**	3,485
Equity accounted investments	**1,722**	-
Hedges and foreign exchange movements	**(2,251)**	(3,439)
Deferred tax liabilities in relation to prior years	**1,239**	(16,555)
Charged to income statement as deferred income tax (benefit)	**(15,480)**	(8,292)

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Note 23. Issued capital	**Consolidated**	
	2010	2009
	$'000	$'000
Ordinary Shares		
336,582,351 ordinary shares (2009: 331,077,655)	**978,960**	937,259
Unvested executive incentive shares		
7,891,599 ordinary shares (2009: 7,725,588)	**(38,888)**	(37,071)
200,000,000 Redeemable Optionally Adjustable		
Distributing Securities (ROADS) (2009: 200,000,000)	**178,603**	178,603
	1,118,675	1,078,791

Fully paid ordinary share capital

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	Consolidated			
	2010		2009	
Fully paid ordinary share capital	**000's**	**$'000**	000's	$'000
Balance at beginning of financial year	**331,077**	**937,259**	325,084	911,747
Issue of shares through dividend reinvestment plan elections	**5,505**	**41,701**	5,160	22,370
Issue of shares under terms of Employee Share Plan (i)	**-**	**-**	833	3,142
Balance at end of financial year	**336,582**	**978,960**	331,077	937,259

(i) Under the terms of the offer a $1,000 discount was provided in recognition of each employees contribution to the company's performance. Under A-IFRS, the value of the discount is recognised as an expense with a corresponding increase in share capital of $3,142,295.

	Consolidated			
	2010		2009	
Unvested executive incentive shares	**000's**	**$'000**	000's	$'000
Balance at beginning of financial year	**7,726**	**(37,071)**	1,600	(9,791)
Unvested executive incentive shares transactions	**557**	**(4,476)**	6,126	(27,280)
Vested executive incentive shares transactions	**(391)**	**2,659**	-	-
Balance at end of financial year	**7,892**	**(38,888)**	7,726	(37,071)

Unvested executive incentive shares are stock market purchases and are held by the Executive Employee Share Plan Trust under the Long Term Incentive Plan. Dividends from the unvested executive incentive shares accrue to the benefit of executives from the time they are purchased up until when vesting occurs or until the shares are forfeited.

	Consolidated			
	2010		2009	
Redeemable optionally adjustable distributing securities (ROADS)	**000's**	**$'000**	000's	$'000
Balance at beginning of financial year	**200,000**	**178,603**	200,000	178,603
ROADS issued during the year	**-**	**-**	-	-
Balance at end of financial year	**200,000**	**178,603**	200,000	178,603

ROADS are perpetual, redeemable, exchangeable preference shares.

During the year ended 30 June 2007, Works Infrastructure Finance (NZ) Limited (a wholly-owned subsidiary of Downer EDI Limited) issued 200 million ROADS, each having a face value of NZ$1 for a total of NZ$200 million.

Note 23. Issued capital - *continued*

Redeemable optionally adjustable distributing securities - continued

Each ROADS entitles holders to a non-cumulative fully imputed dividend which is in preference to any dividends paid on ordinary shares. ROADS rank in priority to ordinary shares for payment of dividends and for a return of capital on winding up.

The ROADS dividend may be increased or decreased on Reset Dates, the first of which occurs on 15 June 2012. On that date the ROADS will be either reset for a further period or at the election of the issuer will be either redeemed or exchanged into ordinary shares of Downer EDI at a 2.5% discount to the weighted average sale price of ordinary shares traded on the ASX during the 20 business days immediately preceding the date of exchange.

The non-cumulative dividend is paid quarterly on the ROADS. Payment of dividends is at the discretion of directors and is subject to the directors declaring or otherwise resolving to pay a dividend and there being no impediment under the Corporations Act 2001 to the payment.

Share options and performance rights
During the financial year no performance rights (2009: nil) or performance options (2009: nil) were granted to senior executives of the Downer EDI group under the long term incentive plan. Further details of the key management personnel long term incentive plan are contained in the remuneration report.

Note 24. Reserves

	Consolidated	
	2010 **$'000**	2009 $'000
Available for sale investment reserve	(2,816)	(3,053)
Hedge reserve	(84,642)	(61,902)
Foreign currency translation reserve	(39,945)	(36,129)
Employee benefits reserve	19,510	15,960
Total reserves	(107,893)	(85,124)

Hedge reserve
The hedge reserve included a balance of $76.5 million representing the equity accounted share of the historical movements of Reliance Rail's hedge reserve. The hedge reserve is being amortised on a straight-line basis over 30 years being the contracted term of the Waratah Public-Private Partnership (PPP) Through-Life Support contract. In the current year, $2.6 million has been amortised and reflected as an expense in the income statement .

Notes to the Preliminary Final Report - *continued*
for the year ended 30 June 2010

Note 25. Acquisition of businesses

a) Summary of acquisitions

2010

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired %	Cost of acquisition $'000
Businesses:				
Western Construction Co.	Mechanical, construction and maintenance business	10 September 2009	-	34,258
Berry Pipelines Pty Ltd	Water main renewals	15 January 2010	-	4,507
				38,765

2009

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired %	Cost of acquisition $'000
Controlled entities:				
AC Consulting Ltd	Engineering consulting	1 July 2008	100	1,812
Advanced Separation Engineering	Mineral separation technology	10 July 2008	100	317
HRS Ltd	Rail maintenance	17 July 2008	100	4,610
Lowan Management Pty Ltd	Acquisition of patents	26 February 2009	100	13
Businesses:				
APMS	Asphalt manufacturing	1 December 2008	-	8,645
Excell Corporation	Open space management	30 September 2008	-	21,958
Corke Instrumentation Engineering	Instrumentation	1 May 2009	-	9,531
Downer Universal Communication Group	Telephony maintenance	30 January 2009	-	665
				47,551

Note 25. Acquisition of businesses - *continued*

	Note	Consolidated 2010 $'000	2009 $'000
Purchase consideration			
Cash paid		**32,675**	49,422
Purchase price adjustment		**6,090**	(1,711)
Total purchase consideration		**38,765**	47,711
Fair value of net identifiable assets acquired	25(c)	**13,325**	16,490
Goodwill	17	**25,440**	31,221

The acquisitions for the year have been provisionally accounted for at 30 June 2010. Goodwill has arisen on acquisitions because the cost of the combination includes amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

b) Purchase consideration

	2010	2009
Outflow of cash to acquire businesses, net of cash acquired		
Cash consideration	**32,675**	49,422
Net cash and cash equivalents acquired	**-**	(279)
Cash (received)/paid – post acquisition settlement	**(339)**	2,433
Outflow of cash	**32,336**	51,576

Note 25. Acquisition of businesses - *continued*

c) Assets and liabilities acquired

The assets and liabilities arising from the acquisitions are as follows:

	Note	Book Value $'000	Fair Value $'000
Current assets			
Inventories		**180**	**180**
Trade and other receivables		**5,728**	**5,728**
Other assets		**53**	**53**
Total		**5,961**	**5,961**
Non-current assets			
Property, plant & equipment	16	**11,873**	**11,873**
Deferred tax assets	13	**660**	**660**
Total		**12,533**	**12,533**
Current liabilities			
Trade and other payables		**2,191**	**2,191**
Borrowings		**289**	**289**
Provisions	21	**1,779**	**1,779**
Total		**4,259**	**4,259**
Non-current liabilities			
Borrowings		**910**	**910**
Total		**910**	**910**
Net identifiable assets acquired		**13,325**	**13,325**

Note 26. Disposal of asset held-for-sale

On 30 June 2010, the Group completed the sale of the remaining 49% of MB Century Drilling, an oil, gas and geothermal drilling business, to Mohamed Al Barwani Holding Company LLC (MB Holding).

The sale of MB Century Drilling reflected the disposal of the Group's remaining 49% investment on 30 June 2010, repayment of shareholders loans and settlement of the EBIT loss guarantee amounts provided on the initial sale of the Group's 51% interest, net of retention monies held. The sale and the settlement of the related transactions resulted in a cash inflow of $89.2 million and a pre-tax gains of $5.2 million.

During the financial year, the carrying value of the investment in MB Century Drilling was impaired by a total of $25.8 million (which includes the $10.0 million provision made on 1 June 2010 as explained in Note 4). The $5.2 million pre-tax gain on sale reflected the net asset position immediately prior to sale on 30 June 2010.

Note 27. Cash flow statement - additional information

a) Reconciliation of cash and cash equivalents

For the purpose of the cash flow statement, cash comprises:	Note	Consolidated 2010 $'000	2009 $'000
Cash		**381,776**	288,715
Short term deposits		**3,350**	10,748
	35	**385,126**	299,463
Bank overdrafts	19	**(6,744)**	(7,240)
		378,382	292,223

b) Non-cash financing and investing activities

During the current financial year $41,701,000 (2009: $25,512,000) in equity was issued in respect of:

i) Dividend reinvestment plan elections $41,701,000 (2009: $22,370,000);

ii) Issue of shares under the terms of Employee Share Plan $nil (2009: $3,142,000).

During the financial year the group acquired $489,000 (2009: $49,730,000) of equipment under finance leases. This acquisition will be reflected in the cash flow statements over the term of the finance lease via lease repayments.

c) Reconciliation of profit after tax to net cash flows from operating activities

	Consolidated 2010 $'000	2009 $'000
Profit after tax for the year	**3,052**	189,376
Adjustments for:		
Share of joint ventures and associates profits net of distributions	**(5,314)**	(259)
Depreciation and amortisation of non-current assets	**160,159**	141,768
Impairment of assets held for sale	**25,871**	-
Amortisation of deferred costs	**2,870**	1,088
Profit on sale of property, plant and equipment	**(27,700)**	(1,480)
Profit on disposal of businesses and investments	**(2,350)**	(777)
Foreign exchange loss/(gain)	**527**	(4,146)
Decrease in income tax payable	**(4,641)**	(6,635)
Movement in deferred tax balances	**(20,668)**	94,995
Equity settled share-based transactions	**6,261**	8,677
Payment for unvested executive incentive shares	**(4,476)**	(27,280)
Settlement of operational foreign exchange contracts	**(34,882)**	38,827
Impairment of goodwill	**42,000**	-
Other	**1,838**	1,880
	139,495	246,658
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
(Increase)/decrease in assets:		
Current trade and other receivables	**2,000**	(8,250)
Current inventories	**5,048**	7,992
Other current assets	**3,211**	9,714
Other financial assets	**(83)**	1,883
Non-current financial assets	**-**	669
Other non-current assets	**781**	346
Increase/(decrease) in liabilities:		
Current trade and other payables	**55,663**	(60,589)
Current provisions	**(3,065)**	(47,161)
Non-current trade and other payables	**(1,796)**	906
Non-current provisions	**(40)**	(5,080)
	61,719	(99,570)
Net cash provided by operating activities	**204,266**	336,464

Note 28. Commitments

a) Capital expenditure commitments

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Plant and equipment:			
Within one year		**226,967**	2,704
		226,967	2,704

b) Operating lease commitments

Non-cancellable operating leases related to premises and plant and equipment with lease terms of between 1 to 15 years.

Within one year		**122,880**	106,894
Between one and five years		**233,843**	210,365
Greater than five years		**103,628**	37,795
		460,351	355,054

c) Finance lease commitments

Finance leases relate to plant and equipment with lease terms of between 1 to 5 years.

Within one year		**12,367**	11,971
Between one and five years		**44,953**	55,436
Minimum finance lease payments		**57,320**	67,407
Future finance charges		**(9,542)**	(13,487)
Finance lease liabilities		**47,778**	53,920
Included in the Preliminary Final Report as:			
Current borrowings	19	**8,328**	8,006
Non-current borrowings	19	**39,450**	45,914
		47,778	53,920

d) Other expenditure commitments

Hire purchase liabilities:

Within one year		**1,344**	1,608
Between one and five years		**4,469**	3,929
Greater than five years		**54**	57
Minimum hire purchase payments		**5,867**	5,594
Future finance charges		**(117)**	(124)
Hire purchase liabilities		**5,750**	5,470
Included in the Preliminary Final Report as:			
Current borrowings	19	**1,337**	1,576
Non-current borrowings	19	**4,413**	3,894
		5,750	5,470

Note 29. Contingent liabilities

	Consolidated	
	2010	2009
	$'000	$'000
The consolidated entity has bid bonds and performance bonds issued in respect of contract performance in the normal course of business for wholly owned controlled entities	**834,798**	780,678

In the ordinary course of business:

i) The company and certain controlled entities are called upon to give guarantees and indemnities in respect of the performance by counter parties, including controlled entities and related parties, of their contractual and financial obligations. Other than as noted above, these guarantees and indemnities are indeterminable in amount.

ii) Some entities in the Group are subject to normal design liability in relation to completed design and construction projects. The directors are of the opinion that there is adequate insurance to cover this area and accordingly, no amounts are recognised in the Preliminary Final Report.

iii) Controlled entities have entered into various partnerships and joint ventures under which the controlled entity could ultimately be jointly and severally liable for the obligations of the partnership or joint venture.

iv) Group companies have the normal contractor's liability in relation to services and construction contracts. This liability may include claims, disputes and/or litigation by or against Group companies and/or joint venture arrangements in which the Group has an interest. The Group is currently managing a number of claims/disputes in relation to contracts, the most significant of which are:

- A claim by SP PowerAssets Ltd in relation to the construction of an electrical services tunnel in Singapore;
- A claim by Siemens Ltd in relation to remediation works on the exhaust system of the Laverton Power Station, Victoria; and
- In December 2009, Patrick Stevedore Operations Pty Limited has adjoined Emoleum Road Services Pty Limited and Emoleum Roads Group Pty Limited (acquired by Downer on 28 February 2006) as fifth and sixth defendants in a matter related to its Port Botany Terminal, Sydney.

In relation to the Siemens Ltd and SP PowerAssets Ltd claims the directors are of the opinion that adequate provisions have been established. Insufficient information currently exists to reliably assess any potential claim that may arise as a consequence of Patrick Stevedore Operations Pty Limited's actions. The directors are of the opinion that disclosure of any further information related to these or other claims would be prejudicial to the interests of the Group.

Note 30. Rendering of services and construction contracts

Cummulative contracts in progress as at reporting date:

	Note	Consolidated 2010 $'000	2009 $'000
Cummulative costs incurred plus recognised profits less recognised losses to date		**7,294,091**	7,737,504
Less: progress billings		**(6,721,231)**	(7,444,411)
Less: provision for Waratah train project	4	**(190,000)**	-
Net amount		**382,860**	293,093
Recognised and included in the Preliminary Final Report as amounts due:			
From customers under contracts Current	11	**613,525**	556,282
To customers under contracts Current	18	**(230,665)**	(263,189)
Net amount		**382,860**	293,093

Note 31. Subsequent events

- On 28 July 2010, the Group's Mining division has signed contracts with BHP Billiton Mitsubishi Alliance (BMA) to June 2015 at Goonyella Riverside and Norwich Park Mines in the Bowen Basin, Central Queensland. The contracts, jointly valued at approximately A$2 billion, are for load and haul of prestrip material and drill and blast services at Goonyella Riverside Mine, and for load and haul of prestrip material at Norwich Park Mine.
- On 5 August 2010, the Group's Mining division has signed a six-year contract, valued at approximately A$3 billion, with Fortescue Metals Group Limited for the provision of mining services at its Christmas Creek operation in the East Pilbara region of Western Australia.

Note 32. Controlled entities

Name of controlled entity	Country of incorporation	Ownership interest	
		2010	2009
		%	%
Advanced Separation Engineering Australia Pty Ltd	Australia	**100**	100
Beckbell Pty Ltd	Australia	**-**	100
CA Facilities Pte Ltd	Singapore	**51**	51
Capital City Hire Ltd (iii)	New Zealand	**-**	100
CBP New Zealand Ltd (iii)	New Zealand	**-**	100
Cendrill Supply Pty Limited	Australia	**-**	100
Century Administration Pty Ltd	Australia	**100**	100
Chan Lian Construction Pte Ltd	Singapore	**100**	100
Chang Chun Ao Da Technical Consulting Co Ltd	China	**100**	100
Choad Pty Ltd	Australia	**100**	100
Construction Professionals Pte Ltd	Singapore	**100**	100
Coomes AC Consulting Pty Ltd	Australia	**100**	100
Coomes Consulting Group Unit Trust	Australia	**100**	100
Corke Instrument Engineering (Australia) Pty Ltd	Australia	**100**	100
CPG Advisory (Shanghai) Co. Ltd	China	**100**	100
CPG Australia Pty Limited	Australia	**100**	100
CPG Consultants (India) Pvt Ltd	India	**100**	100
CPG Consultants (Macau) Pte Ltd	Singapore	**100**	100
CPG Consultants Pte Ltd	Singapore	**100**	100
CPG Consultants Qatar W.L.L	Qatar	**100**	100
CPG Corp Philippines Inc	Philippines	**100**	100
CPG Corporation Pte Ltd	Singapore	**100**	100
CPG Environmental Engineering Co. Ltd	China	**75**	75
CPG Facilities Management (Xiamen) Co. Ltd	China	**-**	100
CPG Facilities Management Pte Ltd	Singapore	**100**	100
CP Green Pte. Ltd.	Singapore	**100**	100
CPG Holdings Pte Ltd	Singapore	**100**	100
CPG Hubin (Suzhou) Pte Ltd	Singapore	**100**	100
CPG Investments Pte Ltd	Singapore	**100**	100
CPG Laboratories Pte Ltd	Singapore	**100**	100
CPG New Zealand Ltd	New Zealand	**100**	100
CPG Resources Pty Ltd	Australia	**100**	100
CPG Traffic Pty Ltd	Australia	**100**	100
CPG Vietnam Co Ltd	Vietnam	**100**	100
D'Axis Planners & Consultants Co. Ltd (i)	China	**-**	60
DCE Limited	New Zealand	**100**	100
Dean Adams Consulting Pty Ltd	Australia	**100**	100
DGL Investments Ltd	New Zealand	**100**	100
DJC & Associates Limited	New Zealand	**52**	52
DMQA Technical Services (UK) Ltd	United Kingdom	**100**	100
DMQA Training Limited	United Kingdom	**100**	100
Downer Australia Pty Ltd	Australia	**100**	100
Downer Bitumen Surfacing Limited	New Zealand	**100**	100
Downer Construction (Fiji) Limited	Fiji	**100**	100
Downer Construction (Hong Kong) Limited	Hong Kong	**100**	100
Downer Construction (New Zealand) Ltd	New Zealand	**100**	100
Downer Construction Tonga Ltd	Tonga	**-**	100
Downer Construction (PNG) Ltd	PNG	**100**	100
Downer EDI Consulting Pty Ltd	Australia	**100**	100
Downer EDI Engineering - QCC Pty Ltd	Australia	**100**	100

Notes to the Preliminary Final Report - *continued*
for the year ended 30 June 2010

Note 32. Controlled entities - *continued*

Name of controlled entity	Country of incorporation	Ownership interest 2010 %	2009 %
Downer EDI Engineering Communications Limited	New Zealand	**100**	100
Downer EDI Engineering Company Pty Limited	Australia	**100**	100
Downer EDI Engineering Construction (Australia) Pty Ltd	Australia	**100**	100
Downer EDI Engineering CWH Pty Limited	Australia	**100**	100
Downer EDI Engineering Electrical Pty Ltd	Australia	**100**	100
Downer EDI Engineering Group (Malaysia) Sdn Bhd	Malaysia	**-**	100
Downer EDI Engineering Group Limited	New Zealand	**100**	100
Downer EDI Engineering Group Pty Limited	Australia	**100**	100
Downer EDI Engineering Holdings Pty Ltd	Australia	**100**	100
Downer EDI Engineering Holdings (Thailand) Limited	Thailand	**100**	100
Downer EDI Engineering Limited	New Zealand	**100**	100
Downer EDI Engineering (M) Sdn Bhd	Malaysia	**100**	100
Downer EDI Engineering Power Limited	New Zealand	**100**	100
Downer EDI Engineering Power Pty Ltd	Australia	**100**	100
Downer EDI Engineering Pty Limited	Australia	**100**	100
Downer EDI Engineering-Projects Pty Ltd	Australia	**100**	100
Downer EDI Engineering (S) Pte Ltd	Singapore	**100**	100
Downer EDI Engineering Telco Services Sdn Bhd	Malaysia	**-**	100
Downer EDI Engineering Thailand Limited	Thailand	**100**	100
Downer EDI Engineering Transmission Pty Ltd	Australia	**100**	100
Downer EDI Finance (NZ) Ltd	New Zealand	**100**	100
Downer EDI Finance Pty Ltd	Australia	**-**	100
Downer EDI Group Finance (NZ) Limited	New Zealand	**100**	100
Downer EDI Limited	United Kingdom	**100**	100
Downer EDI Mining-Mineral Technology SA (Proprietary) Ltd	South Africa	**100**	100
Downer EDI Mining-Mineral Technology (USA) Inc	USA	**100**	100
Downer EDI Mining NZ Limited	New Zealand	**100**	-
Downer EDI Mining Pty Ltd	Australia	**100**	100
Downer EDI Mining Services (Proprietary) Ltd	South Africa	**70**	70
Downer EDI Mining-Blasting Services Pty Ltd	Australia	**100**	100
Downer EDI Mining-Mineral Technologies Pty Ltd	Australia	**100**	100
Downer EDI Mining-Minerals Exploration Pty Ltd	Australia	**100**	100
Downer EDI Rail (Hong Kong) Ltd	Hong Kong	**100**	100
Downer EDI Rail Pty Ltd	Australia	**100**	100
Downer EDI Rail V/Line Maintenance Pty Ltd	Australia	**100**	100
Downer EDI Rail (USA) Inc	USA	**100**	-
Downer EDI Rail (USA) LLC	USA	**100**	-
Downer EDI (UK) Limited	United Kingdom	**100**	100
Downer EDI (USA) Pty Ltd	Australia	**100**	-
Downer EDI Properties Limited	New Zealand	**100**	-
Downer EDI Resource Holdings Limited	Australia	**100**	100
Downer EDI Services Pty Ltd	Australia	**100**	100
Downer EDI Works (Hong Kong) Limited	Hong Kong	**100**	100
Downer EDI Works Limited (ii) (iii)	New Zealand	**100**	100
Downer EDI Works Pte Ltd	Singapore	**100**	100
Downer EDI Works Pty Ltd	Australia	**100**	100
Downer EDI Works Vanuatu Limited	Vanuatu	**100**	100
Downer Energy Systems Pty Limited	Australia	**100**	100
Downer Group Finance International Pty Ltd	Australia	**100**	100
Downer Group Finance Pty Limited	Australia	**100**	100
Downer Holdings Pty Ltd	Australia	**100**	100

Note 32. Controlled entities - *continued*

Name of controlled entity	Country of incorporation	Ownership interest 2010 %	2009 %
Downer MBL Limited	New Zealand	**100**	100
Downer MBL Pty Limited	Australia	**100**	100
Downer NZ Finance Pty Ltd	Australia	**100**	100
Downer PPP Investments Pty Ltd	Australia	**100**	100
Downer Signs Limited	New Zealand	**50**	-
Duffill Watts Pte Limited	Singapore	**100**	100
Duffill Watts Vietnam Ltd	Vietnam	**100**	100
EDI Rail (Maryborough) Pty Ltd	Australia	**100**	100
EDI Rail Investments Pty Ltd	Australia	**100**	100
EDI Rail PPP Maintenance Pty Ltd	Australia	**100**	100
EDICO Pty Ltd	Australia	**100**	100
Emoleum Road Services Pty Limited	Australia	**100**	100
Emoleum Roads Group Pty Limited	Australia	**100**	100
Emoleum Services Pty Limited	Australia	**100**	100
Evans Deakin Industries Pty Ltd	Australia	**100**	100
Faxgroove Pty Ltd	Australia	**100**	100
Gaden Drilling Pty Limited	Australia	**100**	100
H.R.S. New Zealand Ltd (ii)	New Zealand	**100**	100
Indeco Consortium Pte Ltd	Singapore	**100**	100
Killbeen Pty Ltd	Australia	**-**	100
Locomotive Demand Power Pty Ltd	Australia	**100**	100
Lowan (Management) Pty Ltd	Australia	**100**	100
MPE Facilities Management Sdn Bhd	Malaysia	**50**	50
New Zealand Vegetation Control Ltd (iii)	New Zealand	**-**	100
On Track Services New Zealand Ltd (iii)	New Zealand	**-**	100
Otraco Brasil Gerenciamento de Pneus Ltda	Brazil	**100**	100
Otraco Canada Inc	Canada	**100**	100
Otraco Chile SA	Chile	**100**	100
Otraco International Pty Limited	Australia	**100**	100
Otracom Pty Ltd	Australia	**100**	100
Pavement Technology Proprietary Ltd	Australia	**-**	100
Peridian Asia Pte Ltd	Singapore	**100**	100
Peridian India Pvt Ltd	India	**100**	100
PM Link Pte Ltd	Singapore	**100**	100
Primary Producers Improvers Pty Ltd	Australia	**100**	100
PT Duffill Watts Indonesia	Indonesia	**100**	100
P T Otraco Indonesia	Indonesia	**100**	100
PT QDC Technologies	Indonesia	**50**	50
Rail Services Victoria Pty Ltd	Australia	**100**	100
Rayfall Pty Ltd	Australia	**-**	100
Rayjune Pty Ltd	Australia	**-**	100
REJV Services Pty Ltd	Australia	**100**	100
Reussi Pty Limited	Australia	**100**	100
Richter Drilling Indonesia Pty Limited	Australia	**-**	100
Richter Drilling International Pty Ltd	Australia	**-**	100
Richter Drilling (PNG) Limited	PNG	**100**	100
RIMTEC Pty Ltd	Australia	**100**	100
Rimtec USA Inc	USA	**100**	100
Roche Bros (Hong Kong) Ltd	Hong Kong	**100**	100
Roche Bros. Superannuation Pty Ltd	Australia	**100**	100
Roche Castings Pty Ltd	Australia	**100**	100

Note 32. Controlled entities - *continued*

Name of controlled entity	Country of incorporation	Ownership interest	
		2010	2009
		%	%
Roche Contractors Pty Limited	Australia	**100**	100
Roche Highwall Mining Pty Limited	Australia	**100**	100
Roche Mining (MT) Brazil Ltda	Brazil	**100**	100
Roche Mining (MT) Holdings Pty Ltd	Australia	**100**	100
Roche Mining (MT) India Pvt Ltd	India	**100**	100
Roche Mining (PNG) Ltd	PNG	**100**	100
Roche Services Pty Ltd	Australia	**100**	100
RPC IT Pty Ltd	Australia	**100**	100
RPC Roads Pty Ltd	Australia	**100**	100
Sach Infrastructure Pty Ltd	Australia	**100**	100
Scanbright Pty Ltd	Australia	**-**	100
Shanghai CPG Architectural and Design Co. Ltd	China	**100**	100
Sillars (B&CE) Ltd	United Kingdom	**100**	100
Sillars (FRC) Ltd	United Kingdom	**100**	100
Sillars (TMWC) Ltd	United Kingdom	**100**	100
Sillars (TMWD) Ltd	United Kingdom	**100**	100
Sillars Holdings Limited	United Kingdom	**100**	100
Sillars Road Construction Ltd	United Kingdom	**100**	100
Singleton Bahen Stansfield Pty Ltd	Australia	**100**	100
SIP-CPG Facilities Management Co. Ltd	China	**100**	100
Snowden Consultoria Do Brasil Limitada	Brazil	**100**	100
Snowden Mining Industry Consultants Inc.	Canada	**100**	100
Snowden Mining Industry Consultants Limited	United Kingdom	**100**	100
Snowden Mining Industry Consultants Pty Ltd	Australia	**100**	100
Snowden Mining Industry Consultants (Pty) Ltd	South Africa	**100**	100
Snowden Mining Technologies Limited	British Virgin Isl.	**100**	100
Snowden Technologies Pty Ltd	Australia	**100**	100
Snowden Training (Pty) Ltd	South Africa	**100**	100
Southern Asphalters Pty Ltd	Australia	**100**	100
Starblake Pty Ltd	Australia	**100**	100
Suzhou PM Link Co Ltd	China	**60**	60
TSE Wall Arlidge Ltd	New Zealand	**100**	100
TSG Architects Pte Ltd	Singapore	**100**	100
Undergrounds Locators Ltd	New Zealand	**100**	100
Waste Solutions Limited	New Zealand	**100**	100
Works Infrastructure (Holdings) Limited	United Kingdom	**100**	100
Works Infrastructure (UK) Limited	United Kingdom	**100**	100
Works Finance (NZ) Limited	New Zealand	**100**	100
Works Infrastructure Ltd - Fiji Branch	Fiji	**100**	100

(i) The Group's investment in the controlled entity was reduced to 40% during the financial year and consequently this entity was reflected and accounted for as an associate company.

(ii) H.R.S New Zealand Limited and Downer EDI Works Limited amalgamated to become Downer EDI Works Limited with effect from 31 August 2009.

(iii) Capital City Hire Limited, CBP New Zealand Limited, New Zealand Vegetation Control Limited, On Track Services New Zealand Limited and Downer EDI Works Limited amalgamated to become Downer EDI Works Limited with effect from 30 August 2009.

Note 33. Related party information and key management personnel disclosures

a) **Key management personnel**

Directors
P E J Jollie, Chairman
G A Fenn, Managing Director and Chief Executive Officer appointed 30 July 2010, Finance Director and Chief Financial Officer, 1 July 2010 to 29 July 2010, Chief Financial Officer, commenced 2 October 2009.
G H Knox, Managing Director and Chief Executive Officer to 30 July 2010
S A Chaplain, Non Executive Director
P R Coates AO, Non Executive Director, resigned 15 October 2009
L Di Bartolomeo, Non Executive Director
R M Harding, Non Executive Director
J S Humphrey, Non Executive Director
C J S Renwick AM, Non Executive Director
C G Thorne, Non Executive Director, appointed 1 July 2010

Key Management Executives
C Bruyn, Chief Executive Officer- Downer New Zealand & United Kingdom
D Cattell, Chief Operating Officer- Downer EDI Limited
S Cinerari, Chief Executive Officer- Downer Works- Australia
E Kolatchew, Chief Executive Officer- Downer Engineering from 11 January 2010
W Nolan, Chief Executive Officer- Downer Engineering to 30 October 2009
D O' Reilly, President- Western Reigon
D Overall, Chief Executive Officer- Downer Mining
P Reichler, Chief Financial Officer to 1 October 2009, Chief Executive officer- Group Ventures from 2 October 2009
G Wannop, Chief Executive Officer- Downer Rail to 1 July 2010

b) **Other transactions with directors:**
A director of the company, J S Humphrey, has an interest as a partner in the firm Mallesons Stephen Jaques, solicitors. This firm renders legal advice to the consolidated entity in the ordinary course of business under normal commercial terms and conditions. The amount of fees paid and recognised was $737,818 (2009: $233,334).

Note 33. Related party information and key management personnel disclosures

c) **Transactions with other related parties:**

Transactions with other related parties are made on normal commercial terms and conditions. The following transactions with other related parties, where a Downer director has also a directorship, occurred during the financial year ended 30 June 2010.

		Transaction type		
Director	**Entity**	**Sponsor-ship**	**Sales of goods and services**	**Purchase of goods**
		$'000	**$'000**	**$'000**
M Harding	Clough Ltd	**-**	**367**	**-**
M Harding	Santos Ltd	**-**	**-**	**1**
C Renwick	Coal & Allied	**-**	**3,596**	**-**
L Di Bartolomeo	Australian Rail Track Corporation Limited	**-**	**133,752**	**389**
S A Chaplain	Australian Youth Orchestra	**50**	**-**	**-**

d) **Transactions within the wholly owned group:**

Details of dividend and interest revenue derived by the parent entity from wholly owned subsidiaries are disclosed in Note 3 to the Preliminary Final Report. Aggregate amounts receivable from and payable to wholly owned subsidiaries are disclosed in Notes 11 and 18 of the Preliminary Final Report. Amounts contributed to the defined contribution plan are disclosed in Note 3 to the Preliminary Final Report.
Other transactions occurred during the financial year between entities in the wholly owned group on normal commercial terms.

e) **Equity interests in related parties:**

Equity interests in subsidiaries:

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 32 to the Preliminary Final Report.

Equity interests in associates and joint ventures:

Details of interests in associates and joint ventures are disclosed in Note 15 to the Preliminary Final Report.

f) **Controlling entity:**

The parent entity of the group is Downer EDI Limited.

g) **Key management personnel equity holdings:**

Key management personnel equity holdings in fully paid ordinary shares issued by Downer EDI Limited are as follows:

Note 33. Related party information and key management personnel disclosures - *continued*

2010	Balance at 1 July 2009 No.	Net change No.	Balance at 30 June 2010 No.
P E J Jollie	**86,333**	**103,334**	**189,667**
L Di Bartolomeo	**47,206**	**753**	**47,959**
S A Chaplain	**13,000**	**6,609**	**19,609**
R M Harding	**-**	**-**	**-**
J S Humphrey	**54,069**	**157**	**54,226**
C J S Renwick	**30,000**	**-**	**30,000**
C G Thorne	**-**	**-**	**-**
G A Fenn	**-**	**-**	**-**
G H Knox	**600,000**	**200,000**	**800,000**
C Bruyn	**500**	**-**	**500**
D Cattell	**57,809**	**(48,750)**	**9,059**
S Cinerari	**1,843**	**-**	**1,843**
E Kolatchew	**-**	**-**	**-**
D Overall	**-**	**-**	**-**
D O'Reilly	**25,500**	**25,000**	**50,500**
P Reichler	**200,256**	**(66,602)**	**133,654**
G Wannop	**47,064**	**(14,458)**	**32,606**
	1,163,580	**206,043**	**1,369,623**

2009	Balance at 1 July 2008 No.	Net change No.	Balance at 30 June 2009 No.
P E J Jollie	82,029	4,304	86,333
L Di Bartolomeo	26,233	20,973	47,206
J S Humphrey	53,786	283	54,069
C J S Renwick	30,000	-	30,000
S A Chaplain	-	13,000	13,000
G H Knox	400,000	200,000	600,000
C Bruyn	10,000	(9,500)	500
D Cattell	525,136	(467,327)	57,809
W Nolan	500	25,500	26,000
S Cinerari	6,793	(4,950)	1,843
D O'Reilly	-	25,500	25,500
P Reichler	167,456	32,800	200,256
P Reidy	2,095	18,094	20,189
G Wannop	55,147	(8,083)	47,064
	1,359,175	(149,406)	1,209,769

S A Chaplain and R M Harding appointed 1 July 2008. P R Coates appointed 30 October 2008.

Note 33. Related party information and key management personnel disclosures - *continued*

Key management personnel equity holdings in performance options issued by Downer EDI Limited are as follows:

2010	2010 Balance at 1 July 2009 No.	Net change No.	Balance at 30 June 2010 No.
D Cattell	**34,863**	**-**	**34,863**
C Bruyn	**24,481**	**-**	**24,481**
S Cinerari	**19,016**	**-**	**19,016**
D O'Reilly	**19,401**	**-**	**19,401**
P Reichler	**16,082**	**-**	**16,082**
G Wannop	**25,106**	**-**	**25,106**
	138,949	**-**	**138,949**

2009	2009 Balance at 1 July 2008 No.	Net change No.	Balance at 30 June 2009 No.
D Cattell	34,863	-	34,863
W Nolan	22,038	-	22,038
C Bruyn	24,481	-	24,481
S Cinerari	19,016	-	19,016
D O'Reilly	19,401	-	19,401
P Reichler	16,082	-	16,082
P Reidy	18,957	-	18,957
G Wannop	25,106	-	25,106
	179,944	-	179,944

Note 33. Related party information and key management personnel disclosures - *continued*

Key management personnel equity holdings in performance rights issued by Downer EDI Limited are as follows:

2010	2010 Balance at 1 July 2009 No.	 Net change No.	 Balance at 30 June 2010 No.
D Cattell	**11,000**	**-**	**11,000**
C Bruyn	**7,724**	**-**	**7,724**
S Cinerari	**6,000**	**-**	**6,000**
D O'Reilly	**6,121**	**-**	**6,121**
P Reichler	**5,074**	**-**	**5,074**
G Wannop	**7,921**	**-**	**7,921**
	43,840	**-**	**43,840**

2009	2009 Balance at 1 July 2008 No.	 Net change No.	 Balance at 30 June 2009 No.
D Cattell	11,000	-	11,000
C Bruyn	7,724	-	7,724
W Nolan	6,953	-	6,953
S Cinerari	6,000	-	6,000
P Reichler	5,074	-	5,074
D O'Reilly	6,121	-	6,121
P Reidy	5,988	-	5,988
G Wannop	7,921	-	7,921
	56,781	-	56,781

Note 34. Employee share plan

An employee discount share plan was instituted in June 2005. In accordance with the provisions of the plan, as approved by shareholders at the 1998 annual general meeting, permanent full and part time employees of Downer EDI Limited and its subsidiary companies who have completed one year's service may be invited to participate. Further details of the employee discount share plan will be contained in the remuneration report as part of the Annual Financial Report.

Note 35. Financial instruments

(a) Capital risk management
The capital structure of the consolidated entity consists of debt and equity. The consolidated entity may vary its capital structure by adjusting the amount of dividends, returning capital to shareholders, issuing new shares or increasing or reducing debt.

The consolidated entity's objectives when managing capital are to safeguard its ability to operate as a going concern so that it can meet all its financial obligations when they fall due, to provide adequate returns to shareholders and to maintain an appropriate capital structure to optimise its cost of capital. The consolidated entity's capital management strategy remains unchanged from 2009.

The consolidated entity monitors its gearing ratio determined as the ratio of net debt to total capitalisation. During the years ended 30 June 2010 and 30 June 2009, the gearing ratios were as follows:

		Consolidated	
		2010	2009
	Note	**$'000**	$'000
Current borrowings	19	**272,167**	215,839
Non-current borrowings	19	**617,012**	578,658
Gross debt [(i)]		**889,179**	794,497
Adjustment for cross currency swap hedges and deferred finance charges		**26,644**	22,659
Adjusted gross debt		**915,823**	817,156
Less: Cash and cash equivalents	9	**(385,126)**	(299,463)
Net debt		**530,697**	517,693
Equity [(ii)]		**1,242,851**	1,330,388
Total capitalisation (Net debt + Equity)		**1,773,548**	1,848,081
Gearing ratio [(iii)]		**29.9%**	28.0%

(i) Gross debt is defined as all borrowings
(ii) Equity consists of all capital and reserves
(iii) Net debt / Total capitalisation

(b) Financial risk management objectives
The consolidated entity's Corporate Treasury function provides treasury services to the business, co-ordinates access to domestic and international financial markets and manages the financial risks relating to the operations of the consolidated entity. These financial risks include market risk, credit risk and liquidity risk.

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The consolidated entity may enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including:

i) Forward foreign exchange contracts (outright forwards and options) to hedge the exchange rate risk arising from cross border trade flows, foreign income and debt service obligations;
ii) Cross currency interest rate swaps to manage the foreign currency risk associated with foreign currency denominated borrowings; and
iii) Interest rate swaps to mitigate the risk of rising interest rates.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated entity's Treasury Policies, which provide written principles on the use of financial derivatives.

(c) Accounting policies
Details of the accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the Preliminary Final Report.

Note 35. Financial instruments - *continued*

(d) Foreign currency risk management

The consolidated entity undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts, options and cross currency swap agreements.

The carrying amounts of the consolidated entity's significant foreign currency denominated financial assets and financial liabilities at the reporting date are as follows:

	Financial assets [(ii)]		Financial liabilities [(ii)]	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Consolidated				
US dollar (USD) [(i)]	**62,906**	38,214	**41,831**	32,610
New Zealand dollar (NZD)	**16,802**	1,499	**26,104**	149
Great British pound (GBP)	**1,800**	198	**479**	51
Euro (EUR)	**23,794**	1,787	**998**	5,529
Chinese yuan (CNY)	**3,689**	-	**100**	1,689
	108,991	41,698	**69,512**	40,028

(i) The above table excludes foreign currency financial assets and liabilities which have been hedged back into Australian dollars.

(ii) The above table shows foreign currency financial assets and liabilities in Australian dollar equivalent.

Foreign currency forward contracts

The following table summarises by currency the Australian dollar (AUD) value (unless otherwise stated) of major forward exchange contracts outstanding as at reporting date:

Outstanding contracts	Weighted average exchange rate		Foreign currency		Contract value		Fair value	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
			FC'000	FC'000	**$'000**	$'000	**$'000**	$'000
Buy USD / Sell AUD								
Less than 3 months	**0.8171**	0.7259	**79,818**	12,202	**97,689**	16,809	**(2,997)**	(1,681)
3 to 6 months	**0.7746**	0.7243	**24,617**	149,086	**31,778**	205,835	**(2,176)**	(19,380)
Later than 6 months	**0.7726**	0.7359	**239,966**	171,735	**310,592**	233,367	**(8,451)**	(8,374)
			344,401	333,023	**440,059**	456,011	**(13,624)**	(29,435)
Buy AUD / Sell USD								
Less than 3 months	**0.8807**	0.6992	**1,873**	207	**2,127**	296	**(105)**	39
3 to 6 months	**0.8949**	0.7059	**4,005**	1,403	**4,475**	1,988	**(331)**	240
Later than 6 months	**0.8570**	0.7345	**13,422**	1,401	**15,660**	1,907	**(1,103)**	133
			19,300	3,011	**22,262**	4,191	**(1,539)**	412
Buy EUR / Sell AUD								
Less than 3 months	**0.6115**	0.5538	**14,180**	3,302	**23,191**	5,962	**(2,545)**	(199)
3 to 6 months	**0.6097**	0.5448	**14,715**	5,941	**24,135**	10,905	**(2,479)**	(469)
Later than 6 months	**0.5414**	0.5331	**64,657**	52,091	**119,428**	97,714	**(18,298)**	(2,594)
			93,552	61,334	**166,754**	114,581	**(23,322)**	(3,262)

Note 35. Financial instruments - *continued*

Foreign currency forward contracts - *continued*

	Weighted average exchange rate		Foreign currency		Contract value		Fair value	
	2010	2009	2010 FC'000	2009 FC'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Buy CNY / Sell USD								
Less than 3 months	**6.7325**	-	**101,957**	-	**15,144**	-	**(138)**	-
3 to 6 months	**6.6849**	6.7843	**134,861**	1,628,239	**20,174**	240,001	**(286)**	(1,689)
Later than 6 months	**6.3703**	-	**1,032,385**	-	**162,062**	-	**(5,681)**	-
			1,269,203	1,628,239	**197,380**	240,001	**(6,105)**	(1,689)
Buy KRW / Sell USD								
3 to 6 months	**1,373.5**	1,379.0	**6,265,000**	5,963,000	**4,561**	4,324	**645**	463
Later than 6 months	**1,376.4**	1,376.0	**19,588,000**	31,965,000	**14,232**	23,230	**2,017**	2,452
			25,853,000	37,928,000	**18,793**	27,554	**2,662**	2,915
Buy GBP / Sell AUD								
Less than 3 months	**0.5439**	-	**918**	-	**1,689**	-	**(56)**	-
3 to 6 months	**0.5379**	-	**765**	-	**1,423**	-	**(47)**	-
Later than 6 months	**0.5129**	-	**8,043**	-	**15,681**	-	**(471)**	-
			9,726	-	**18,793**	-	**(574)**	-
Buy AUD / Sell ZAR								
Less than 3 months	**6.5970**	7.5462	**1,115**	10,934	**169**	1,453	**(3)**	(290)
3 to 6 months	**6.6240**	7.3152	**988**	4,136	**149**	570	**(3)**	(84)
Later than 6 months	**-**	6.6859	**-**	1,528	**-**	229	**-**	(10)
			2,103	16,598	**318**	2,252	**(6)**	(384)
Buy SGD / Sell USD								
Less than 3 months	**1.3943**	-	**1,700**	-	**2,370**	-	**(5)**	-
3 to 6 months	**1.3971**	-	**2,550**	-	**3,563**	-	**-**	-
Later than 6 months	**1.3806**	-	**3,350**	-	**4,625**	-	**(44)**	-
			7,600	-	**10,558**	-	**(49)**	-

Cross currency interest rate swaps

Under cross currency interest rate swap contracts, the consolidated entity has agreed to exchange certain foreign currency loan principal and interest amounts at agreed future dates at fixed exchange rates. Such contracts enable the consolidated entity to eliminate the risk of adverse movements in foreign exchange rates related to foreign currency denominated borrowings.

The following table details the Australian dollar equivalent of cross currency interest rate swaps outstanding as at reporting date:

Outstanding contracts	Weighted average interest rate		Weighted average exchange rate		Contract value		Fair value	
	2010 %	2009 %	2010	2009	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Buy USD / Sell AUD								
Less than 1 year	**6.8**	7.6	**0.7217**	0.6867	**2,771**	32,764	**(325)**	(4,984)
2 to 5 years	**8.0**	6.8	**0.6787**	0.7218	**103,141**	2,771	**(11,611)**	(176)
5 years or more	**6.8**	8.1	**0.7220**	0.6828	**9,695**	112,836	**393**	(8,552)
Total					**115,607**	148,371	**(11,543)**	(13,712)

Note 35. Financial instruments - *continued*

Cross currency interest rate swaps- *continued*

Outstanding contracts	Weighted average interest rate		Weighted average exchange rate		Contract value		Fair value	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	%	%			**$'000**	$'000	**$'000**	$'000
Buy SGD / Sell AUD								
1 to 2 years	**8.7**	-	**1.1845**	-	**50,654**	-	**(312)**	-
2 to 5 years	**-**	7.0	**-**	1.1845	**-**	50,654	**-**	59
Total					**50,654**	50,654	**(312)**	59

The above cross currency interest rate swaps contracts are designated and effective as cash flow hedge.

Buy USD / Sell NZD								
Less than 1 year [(i)]	**-**	3.6	**-**	0.6530	**-**	67,430	**-**	666
Total					**-**	67,430	**-**	666

(i) This amount has been translated into AUD which has impacted the change in value.

Buy NZD / Sell AUD								
2 to 5 years	**9.7**	-	**1.2384**	-	**28,887**	-	**484**	-
Total					**28,887**	-	**484**	-

The above cross currency interest rate swaps contracts are designated and effective as fair value hedges.

Foreign currency sensitivity analysis

The Group is mainly exposed to the following foreign currencies: Australian Dollar (AUD), United States Dollar (USD), Euro (EUR), Chinese Yuan (CNY) and Great British Pound (GBP).

The following table details the Group's sensitivity to a 10% movement in the Australian dollar against relevant foreign currencies. The percentages disclosed below represents management's assessment of the possible changes in spot foreign exchange rates. (i.e. forward exchange points and discount factors have been kept constant). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a given percentage change in foreign currency rates.

The use of percentage changes in rates (10%) for FY 2010, rather than absolute rate changes used in FY2009, better reflects management's view of potential volatility in foreign currency rates.

A positive number indicates a before tax increase in profit and equity and a negative number indicates a before tax decrease in profit and equity.

Note 35. Financial instruments - *continued*

Foreign currency sensitivity analysis- *continued*

Consolidated	Profit/(loss) (i) 2010 $'000	2009 $'000	Equity (ii) 2010 $'000	2009 $'000
USD impact				
0.60 against AUD	**-**	11,939	**-**	143,275
0.98 against AUD	**-**	(6,119)	**-**	(73,428)
- 10% rate change	**7,871**	-	**38,759**	-
+ 10% rate change	**(6,440)**	-	**(31,712)**	-
EUR impact				
0.48 against AUD	**-**	(95)	**-**	20,666
0.62 against AUD	**-**	35	**-**	(7,638)
- 10% rate change	**2,533**	-	**13,434**	-
+ 10% rate change	**(2,072)**	-	**(13,434)**	-
CNY impact				
- 10% rate change	**399**	-	**25,659**	32,846
+ 10% rate change	**(326)**	-	**(20,880)**	(26,868)
NZD impact				
1.10 against AUD	**-**	183	**-**	-
1.29 against AUD	**-**	(43)	**-**	-
- 10% rate change	**(1,034)**	-	**-**	-
+ 10% rate change	**846**	-	**-**	-
GBP impact				
- 10% rate change	**147**	-	**1,700**	-
+ 10% rate change	**(120)**	-	**(1,700)**	-

(i) This is mainly a result of the changes in the value of forward foreign exchange contracts not designated in a hedge relationship, and foreign currency investments, receivables and payables at year end in the consolidated entity.

(ii) This is a result of the changes in the value of forward foreign exchange contracts designated as cash flow hedges.

In the above sensitivity analysis, changes have been made to the spot foreign exchange rate only (i.e. forward exchange points and discount factors have been kept constant).

In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the year end exposure does not necessarily reflect the exposure during the course for the year.

Note 35. Financial instruments - *continued*

(e) Interest rate risk management

The consolidated entity is exposed to interest rate risk as entities borrow funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and hedging is undertaken through interest rate swap contracts or the issue of fixed rate MTN's or bonds.

The consolidated entity's exposure to interest rates on financial assets and financial liabilities are detailed in the table below:

	Weighted average effective interest rate		Consolidated	
	2010	2009	**2010**	2009
	%	%	**$'000**	$'000
Floating interest rates - Cash flow exposure				
Bank overdraft (i)	**3.6**	4.8	**6,435**	7,240
Bank loans				
AUD (ii)	**8.4**	5.6	**71,832**	102,457
GBP	**2.2**	-	**31,296**	-
SGD	**3.4**	4.7	**11,735**	8,558
USD	**1.6**	-	**22,882**	-
USD notes	**-**	3.6	**-**	69,906
AUD medium term notes:				
Series I	**-**	4.0	**-**	81,256
Series II	**-**	5.0	**-**	6,641
Series III (iii)	**8.4**	-	**100,000**	-
Cash and cash equivalents	**3.7**	4.6	**(385,126)**	(299,463)
Cash flow exposure - total			**(140,946)**	(23,405)
Fixed interest rates - Fair value exposure				
Bank loans				
AUD	**6.3**	6.3	**211,933**	210,056
SGD (iv)	**5.0**	3.6	**12,573**	21,392
USD notes	**7.8**	7.8	**115,608**	143,951
AUD medium term notes:				
Series II	**7.2**	7.2	**106,309**	106,309
Series III (iii)	**9.8**	-	**50,000**	-
NZD Bonds (v)				
NZD (v)	**9.7**	-	**92,806**	-
AUD	**10.0**	-	**28,887**	-
Finance lease	**8.2**	8.2	**53,527**	59,390
Fair value exposure - total			**671,643**	541,098

All interest rates in the above table reflect rates in the currency of the relevant loan.

(i) Bank overdraft held in UK (GBP denominated).
(ii) Includes a bank loan amount that has been swapped from floating rate SGD to floating rate AUD.
(iii) AUD150 million MTN Series III fixed rate note; AUD100 million swapped from fixed rate to floating rate.
(iv) Part of SGD bank loan swapped from floating rate to fixed rate.
(v) NZD Bond 150m fixed rate; partial amount swapped from fixed rate NZD to fixed rate AUD.

Note 35. Financial instruments - *continued*

Interest rate swap contracts

The consolidated entity uses interest rate swap contracts to manage interest rate exposures. Under the interest rate swap contracts, the consolidated entity agrees to exchange the differences between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The fair values of interest rate swaps are based on market values of equivalent instruments at the reporting date.

The following tables detail the interest rate swap contracts and related notional principal amounts as at reporting date:

Outstanding floating for fixed contracts	Weighted average interest rate (including margin)		Notional principal amount		Fair value	
	2010 %	2009 %	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000
AUD interest rate swaps						
Less than 1 year	**5.2**	6.6	**180,000**	20,859	**(598)**	(90)
1 to 2 years	**-**	5.2	**-**	180,000	**-**	(3,579)
2 to 5 years	**5.1**	5.1	**138,242**	133,747	**496**	3,570
			318,242	334,606	**(102)**	(99)
SGD interest rate swaps						
Less than 1 year	**1.8**	2.1	**4,191**	17,114	**(33)**	25
1 to 2 years	**2.2**	1.8	**8,382**	4,279	**(176)**	12
2 to 5 years	**-**	2.2	**-**	8,557	**-**	25
			12,573	29,950	**(209)**	62
USD interest rate swaps						
Less than 1 year	**-**	1.4	**-**	18,591	**-**	121
			-	18,591	**-**	121

The above interest rate swap contracts exchanging floating rate interest for fixed rate interest are designated as effective cash flow hedges.

Outstanding fixed for floating contracts	Weighted average interest rate (including margin)		Notional principal amount		Fair value	
	2010 %	2009 %	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000
AUD interest rate swaps						
Less than 1 year	**-**	3.9	**-**	80,000	**-**	1,185
2 to 5 years	**8.4**	-	**100,000**	-	**2,672**	-
			100,000	80,000	**2,672**	1,185
NZD interest rate swaps						
Less than 1 year	**-**	1.3	**-**	67,430	**-**	444
			-	67,430	**-**	444

The above interest rate swap contracts exchanging fixed rate interest for floating rate interest are designated as effective fair value hedges.

Note 35. Financial instruments - *continued*

Interest rate sensitivity analysis
The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and assuming that the rate change occurs at the beginning of the financial year and is then held constant throughout the reporting year.

The selected percentage increase or decrease represents management's assessment of the possible change in interest rates. A positive number indicates a before tax increase in profit and equity and a negative number indicates a before tax decrease in profit and equity.

	Consolidated	
	2010 (iv) **$'000**	2009 (iii) $'000
Increase in rate		
Profit or loss (i)	**1,707**	1,278
Equity (ii)	**6,672**	6,541
Decrease in rate		
Profit or loss	**(1,834)**	(320)
Equity	**(6,824)**	(1,667)

(i) This is mainly attributable to the consolidated entity's exposure to interest rates on its unhedged variable rate borrowings.
(ii) This is mainly on account of the change in valuation of the interest rate swaps and cross currency interest rate swaps held by the consolidated entity and designated as cashflow hedges.
(iii) 2009 sensitivities have been based on an increase in interest rates by 1.0% per annum and a decrease by 0.25% per annum.
(iv) 2010 sensitivities have been based on an increase in interest rates by 1.0% per annum and a decrease 1.0% per annum across the yield curve.

(f) Equity price risk management
The consolidated entity is exposed to equity price risks arising from equity investments. Equity investments are held for trading purposes and are categorised as fair value through profit and loss investments.

Equity price risk sensitivity
The sensitivity analysis below have been determined based on the exposure to equity price risks at the reporting date.

A 5.0% increase or decrease in the equity index is used and represents management's assessment of the possible change in equity prices. A positive number indicates an increase in profit and equity and a negative number indicates a decrease in profit and equity.

	Consolidated	
	2010 **$'000**	2009 $'000
Profit or loss impact:		
Fair value through profit or loss investments	**156**	52

Note 35. Financial instruments - *continued*

(g) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with highly rated counterparties. The consolidated entity's exposure and the credit ratings of its counterparties are continuously monitored and transactions are spread amongst approved counterparties.

Trade accounts receivable consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable counterparties and where appropriate insurance cover is obtained. Refer to Note 11 for details on credit risk arising from trade and other receivables.

The credit risk on derivative financial instruments is limited to counterparties that have minimum long term credit ratings of no less than single A (or equivalent) other than one counterparty that is rated BBB+.

Credit risk arising from cash balances held with banks and financial institutions is managed by Group Treasury in accordance with the Board Policy. Investments of surplus funds are made only with approved counterparties (with credit ratings of no less than AA-) and within credit limits assigned to each counterparty.

Counterparty credit limits are reviewed by the Board on an annual basis, and may be updated during the year as required. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty default. No material exposure is considered to exist by virtue of the non-performance of any financial counterparty.

The carrying amount of financial assets recorded in the Preliminary Final Report, net of any allowances for losses, represents the consolidated entity's maximum exposure to credit risk.

(h) Liquidity risk management

Liquidity risk arises from the possibility that the consolidated entity is unable to settle a transaction on the due date. The ultimate liquidity risk management rests with the Board of Directors, who have built an appropriate risk management framework for the consolidated entity's short, medium and long-term funding and liquidity management requirements.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and committed undrawn debt facilities, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities. Included in Note 19 is a listing of committed undrawn debt facilities.

In June 2010 the Company's external credit rating was downgraded by Fitch Ratings from BBB to BBB- (stable). This rating level is designated as Investment Grade.

Note 35. Financial instruments - *continued*

Liquidity risk tables

The following table details the consolidated entity's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on contractual maturities. The tables include both interest and principal cash flows.

	Less than 1 year $'000	1 to 2 years $'000	2 to 3 years $'000	3 to 4 years $'000	4 to 5 years $'000	More than 5 years $'000
Consolidated						
2010						
Financial liabilities:						
Trade payables	351,753					
Bank overdraft	6,744	-	-	-	-	-
Bank loans	268,069	97,609	5,761	5,509	5,256	9,755
USD notes	7,815	10,513	7,656	7,656	101,376	12,570
AUD Medium term notes (Series II)	20,257	19,532	18,682	18,118	17,152	45,499
AUD Medium term notes (Series III)	14,625	14,625	14,625	157,313	-	-
NZD Bonds	11,761	130,692	-	-	-	-
Total borrowings including interest	329,271	272,971	46,724	188,596	123,784	67,824
Finance lease and hire purchase liabilities	14,761	12,837	12,039	11,601	11,895	54
Derivative instruments (i)						
Cross currency interest rate swaps						
Receive leg	(11,428)	(64,570)	(36,355)	(6,524)	(86,392)	(10,712)
Pay leg	16,313	69,518	38,519	8,865	107,201	12,666
Interest rate swaps	88	(658)	(859)	(634)	(378)	(687)
Foreign currency forward contracts	17,773	19,663	7,384	-	-	-
Total	718,531	309,761	67,452	201,904	156,110	69,145
Consolidated						
2009						
Financial liabilities:						
Trade payables	292,646	-	-	-	-	-
Bank overdraft	7,240	-	-	-	-	-
Bank loans	33,642	240,879	90,488	5,373	5,199	14,555
USD notes	103,723	6,973	9,381	6,832	6,832	101,678
AUD Medium term notes (Series I)	82,854	-	-	-	-	-
AUD Medium term notes (Series II)	10,507	18,533	17,841	17,149	16,457	58,953
Total borrowings including interest	237,966	266,385	117,710	29,354	28,488	175,186
Finance lease and hire purchase liabilities	14,166	12,598	12,250	11,225	22,762	-
Derivative instruments (i)						
Cross currency interest rate swaps						
Receive leg	(106,041)	(9,511)	(63,575)	(6,832)	(6,832)	(101,678)
Pay leg	114,284	13,411	67,207	8,885	8,885	119,867
Interest rate swaps	297	(227)	1,378	1,716	1,320	1,848
Foreign currency forward contracts	25,050	4,549	2,263	300	-	-
Total	578,368	287,205	137,233	44,648	54,623	195,223

(i) Includes assets and liabilities

Note 35. Financial instruments - *continued*

(i) Fair value of financial instruments

The financial liability disclosed below, is recorded in the Preliminary Final Report at its carrying amount. Its fair value is shown in the table below:

	Carrying amount		Fair value	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Total borrowings [(i)]	**835,651**	735,107	**859,693**	700,798

[(i)] Total borrowings excludes finance leases and includes IFRS adjustments and capital market instruments valued at their carrying amount.

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

i) The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
ii) The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis;
iii) The fair value of derivative instruments included in hedging assets and liabilities are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the term of the instruments.

Transaction costs are included in the determination of net fair value.

(ii) Fair value measurements recognised in the statement of position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Note 35. Financial instruments - *continued*

(ii) Fair value measurements recognised in the statement of position - *continued*

2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets in designated hedge accounting relationships				
Foreign currency forward contracts	-	9,019	-	9,019
Cross currency and interest rate swaps	-	4,513	-	4,513
Financial assets at fair value through profit and loss				
Unquoted equity investments	-	-	6,291	6,291
Listed equity investment	39	-	-	39
Available-for-sale financial assets				
Listed equity investment	2,149	-	-	2,149
Unquoted equity investments	-	-	15,236	15,236
	2,188	13,532	21,527	37,247
Financial liabilities in designated hedge accounting relationships				
Foreign currency forward contracts	-	50,224	-	50,224
Cross currency and interest rate swaps	-	13,524	-	13,524
Financial liabilities at fair value through profit and loss				
Foreign currency forward contracts	-	1,352	-	1,352
	-	65,100	-	65,100

There were no transfers between Level 1 and Level 2 during the year.

Reconciliation of Level 3 fair value measurements of financial assets

	Fair value through profit or loss	Available-for-sale	Total
	Unquoted equity investments	Unquoted equity investments	
2010	$'000	$'000	$'000
Opening balance	3,147	15,527	18,674
Total gains or losses:			
- in profit or loss	109	-	109
- in other comprehensive income	-	(319)	(319)
Purchases	3,035	28	3,063
Closing balance	6,291	15,236	21,527

The table above only includes financial assets. There are no financial liabilities measured at fair value which are classified as Level 3.

Fair value of financial assets and liabilities

Unquoted equity investments
The fair value of the unquoted equity investments were determined based on the consolidated entity's interest in the net assets of the unquoted entities.

Note 36. Parent entity disclosures

(a) Financial position

	Company 2010 $'000	Company 2009 $'000
Assets		
Current assets	**470,464**	437,410
Non-current assets	**912,230**	901,101
Total assets	**1,382,694**	1,338,511
Liabilities		
Current liabilities	**16,327**	16,489
Non-current liabilities	**358,745**	350,773
Total liabilities	**375,072**	367,262
Equity		
Issued capital	**940,072**	900,188
Retained earnings	**48,040**	55,101
Reserves		
Employee benefit reserve	**19,510**	15,960
Total equity	**1,007,622**	971,249

(b) Financial performance

	Company 2010 $'000	Company 2009 $'000
Profit for the year	**89,625**	134,642
Other comprehensive income	**-**	-
Total comprehensive income	**89,625**	134,642

(c) Guarantees entered into by the parent entity in relation to debts of its subsidiaries

The parent entity has in the normal course of business, entered into guarantees in relation to the debts of its subsidiaries during the financial year.

(d) Contingent liabilities of the parent entity

The parent entity has no contingent liabilities as at 30 June 2010.

(e) Commitments for the acquisition of property, plant and equipment by the parent entity

The parent entity does not have any commitments for acquisition of property, plant and equipment as at 30 June 2010.